

## **DEAR SHAREHOLDERS:**

We present this Management Report and the Financial Statements of Cielo S. A. (“Company” or “Cielo”) and its subsidiaries and associate (“Group”), for the fiscal year ended December 31, 2016, accompanied by the Independent Auditor’s Report and the Supervisory Board’s Opinion.

The Individual (Company’s) and Consolidated Financial Statements are presented in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), which converge with the accounting practices adopted in Brazil, which include those established in the Brazilian Corporate Law, as well as the technical pronouncements, guidance and interpretations issued by the Accounting Pronouncements Committee (“CPC”) and approved by the Brazilian Securities and Exchange Commission (“CVM”).

The consolidated financial statements include the account balances of Cielo (Parent Company), its direct subsidiaries Multidisplay, Servinet, Braspag, Cielo USA, Cateno and Aliança, its indirect subsidiaries Me-S and M4Produtos, as well as FIDC. The profit or loss of joint ventures Orizon and Paggo and associate Stelo is accounted for under the equity method in the consolidated financial statements. The profit or loss of the subsidiaries acquired during the year is included in the consolidated statements of profit or loss from the date of acquisition. When necessary, the subsidiaries’ financial statements are adjusted to conform their accounting policies to those established by the Group. All intragroup transactions, balances, income and expenses are fully eliminated in the consolidated financial statements.

## **MESSAGE FROM MANAGEMENT**

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For many, 2016 was a challenging year, full of uncertainties, intensified by political and economic changes. For us, it was one more year in which we reaffirmed our commitment to our clients, employees and stakeholders. There is no doubt that the worst economic crisis ever faced by the country, reflected in our Cielo Broad Retail Index (ICVA), brought great challenges to the Brazilian retail market and, consequently, to the Company. Nonconformist we are, we work hard to deliver the best, most complete and most intelligent solutions to the market, reaffirming our position as industry protagonists.

In an arid environment, Cielo reiterated its commitment to the market and its shareholders by conducting a transparent, righteous and organized process. Rômulo de Mello Dias stepped down as Chief Executive after almost nine years with the Company and as a key contributor to the results achieved by Cielo since its IPO. The position is now held by Eduardo Campozana Gouveia, a renowned executive with large experience in the cards and retail markets. Therefore, Cielo remains firm, committed to generate value to its stakeholders.

With this in mind, more important than the transition process involving the highest management position is the belief that the hard and intense work has just begun. Looking at the future and committed to be the protagonist in the development of technological solutions for our clients, Cielo follows its digital transformation journey, with the main purpose of placing the client at the center of the decision-making process and reinventing processes, products and services to create an innovative purchase and sale experience, frictionless, flexible and with greater operating efficiency for the entire value chain of the Company. After all, given the market context, we believe that everything that brought us here would not be sufficient to make us move ahead. Two milestones in 2016 reflect this thought: the launch of Cielo LIO in April, considered our first step in developing proprietary open source solutions, which rethink the merchant experience not only at the moment of payment but also across the entire sale, business control and management process; and the new positioning “Cielo, a Machine of Ideas”, which reflected the belief that our services need to go beyond than just offering electronic means of payment – we are a service and technology company for the retail sector.

Therefore, to maintain our leadership position, we need to lead the market transformations and innovations. For this purpose, we have taken the first steps towards a more agile and efficient structure, ready to offer solutions that can improve the experience of our clients and, more importantly, boost their results.

The transformation is focused on our clients, in generating greater value to all stakeholders, from employees to shareholders. The efforts employed in this journey have been accompanied by a solid business commitment.

Aimed to preserve the sustainability of our business, we will intensify our commercial proximity with the more than 1.7 million clients in all regions of Brazil.

Likewise, internally, we believe that taking care of our human capital is essential in our commitment to Cielo's transformation journey. During 2016, in spite of the challenging macroeconomic scenario, we continued to invest in the education and qualification of our staff via Cielo University, emphasizing specific training for the salesforce, and implemented a new competency evaluation model, trying to translate into professional qualification the behaviors expected for specific areas.

Basing our strategy on the force of our brand, the unquestionable quality of our salesforce, the capillarity of our distribution, strength of our technological platform and client support, we are confident in our ability to continuing delivering solid and robust results, even if in a more competitive environment. We are conscious about the shift of the consumption journey – the option for a service undoubtedly undergoes the experience as a whole -, and acting with intelligence in the new economy, offering integration of payments to all end services, will be our ambition.

Satisfied with the results we delivered in 2016, with profit growing 14% over the year - there is still much to be done. Our digital transformation process and the commercial focus required in a more competitive environment are only possible with committed staff who are passionate about their work. We are confident and proud to know that we have the most qualified team in the market to capture and create the opportunities we see ahead. For many, as in 2016, 2017 will be another challenging year. For us, it is the year in which we will reinforce our commitment to value generation, obtaining robust results and preparing our platform for the future. Cielo will not abdicate its role of protagonist. Therefore, let's go ahead.

## HIGHLIGHTS 2016

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- Financial volume of transactions totaled R\$584.9 billion, up 6.7% compared to 2015, or R\$36.7 billion;
- Net Operating Revenue totaled R\$12,300.8 million, up 10.6% compared to 2015, or R\$1,178.5 million;
- Net Product of Purchase of Receivables totaled R\$2,409.8 million, up 13.1% year-on-year, or R\$280.0 million. Purchase of receivables reached 20.3% over the financial credit volume, up 0.9 p.p. compared to 2015;
- Total expenditure totaled R\$7,745.3 million, up 14.0% year-on-year, or R\$951.3 million;
- Cielo's Net Income totaled R\$4,005.5 million, up 14.1% year-on-year, or R\$494.1 million; and
- EBITDA of R\$5,535.1 million, up 5.8% year-on-year, or R\$301.6 million.

## OPERATING PERFORMANCE 2016

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### Transaction Financial Volume

Annual Evolution

In 2016, the transaction financial volume totaled R\$584.9 billion, an expansion of 6.7%, or R\$36.7 billion, compared to R\$548.2 billion in the same period of 2015.

Specifically with credit cards, financial volume totaled R\$329.3 billion in 2016, up 2.7% or R\$8.8 billion compared to 2015.

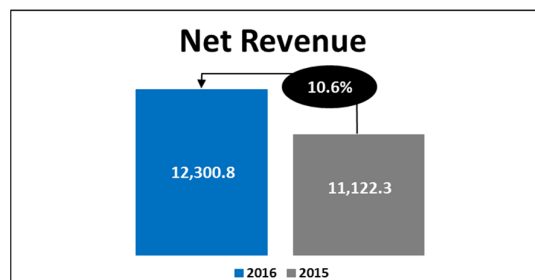
With debit cards, financial volume totaled R\$255.6 billion in 2016, an increase of 12.3% or R\$27.9 billion compared to 2015.

In addition, Cielo captured 6.731 billion transactions in 2016, an increase of 8.6% compared to 2015.

## FINANCIAL PERFORMANCE 2016

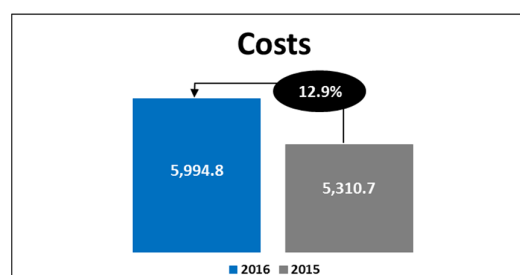
### COMPARISON OF THE YEARS ENDED AT DECEMBER 31, 2016 AND 2015

#### Net Revenue Annual Evolution



Cielo's consolidated net revenue totaled R\$12,300.8 million in 2016, increased by R\$1,178.5 million or 10.6%, compared to R\$11,122.3 million in 2015. Such increase is chiefly due to ongoing business expansion of Cielo and its subsidiaries, as well as the effect of the appreciation during the year of the average US dollar, used to consolidate the revenue generated in the USA by subsidiary Me-S.

#### Cost of Services Provided Annual Evolution

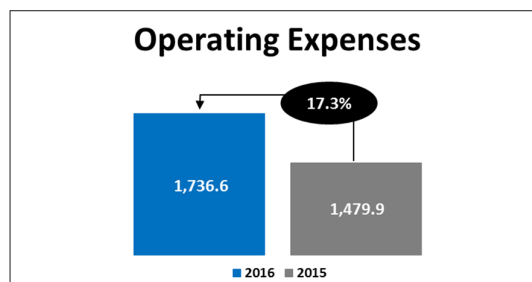


The cost of services provided totaled R\$5,994.8 million in 2016, increased by R\$684.1 million, or 12.9%, compared to 2015. The increase was chiefly due to the following:

- (i) Increase of R\$301.1 million in the costs of subsidiaries Merchant e-Solutions, mainly due to the appreciation of the average US dollar in the period; and M4U, due to the growth of mobile credit sales; partially offset by the change of the remuneration model of certain products, from resale to commission on sales;
- (ii) Increase of R\$269.8 million in costs related to the management of the Ourocard Arrangement, such as card issue and management, brand fees and call centers, due to ongoing business expansion of subsidiary Cateno and due to the startup of operating activities on February 27, 2015;
- (iii) Net increase of R\$113.2 million in the costs of acquiring activities, mostly represented by:
  - (a) Increase of R\$59.1 million in transaction costs, such as processing, call centers, expenditures with merchants and supplies, chiefly due to increased volume and higher number of captured transactions;
  - (b) Increase of R\$36.8 million in the costs related to equipment, such as installation and maintenance of POS terminals, chiefly due to higher demand of repairing, maintenance and uninstalling of equipment and exchange of spare parts in the period; and
  - (c) Increase of R\$17.3 million in the costs mainly related to the contracting of professional services for the development of corporate projects and improvements in the operating systems.

# Operating Expenses

Annual Evolution



Operating expenses totaled R\$1,736.6 million in 2016, increased by R\$256.7 million or 17.3% compared to 2015. The main variations are described below:

**Personnel Expenses** – Personnel expenses increased by R\$61.6 million or 13.3%, to R\$526.1 million in 2016, compared to R\$464.5 million in 2015. Such increase is chiefly due to the average adjustment in wages established in Collective Agreement, retirement expenses and the parent company’s executives severance pay, as well as increased headcount at Cielo, Cateno and Me-S, the latter impacted by the appreciation in the period of the average US dollar used to consolidate balances.

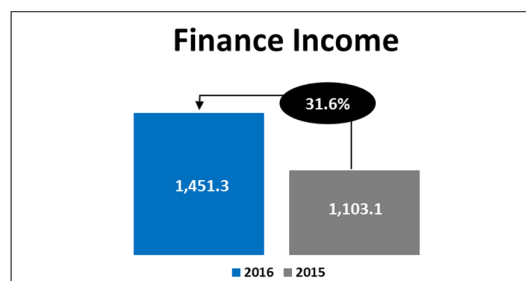
**General and Administrative Expenses** – General and administrative expenses, excluding depreciation, increased R\$27.5 million or 6.0%, to R\$487.6 million in 2016, compared to R\$460.1 million in 2015. The increase is chiefly due to higher expenditures with partnership fees in subsidiary Me-S, impacted by the appreciation of the average US dollar in the period, partially offset by one-time expenses incurred in 4Q15 related to the move of Cielo’s headquarters.

**Sales and Marketing Expenses**- Sales and marketing expenses increased R\$76.6 million or 31.4%, to R\$320.4 million in 2016, compared to R\$243.8 million in 2015. The increase mainly derives from higher expenses incurred in 2016 with the distribution of institutional campaigns and marketing activities held in conjunction with issuing banks and sales partners by the Parent Company.

**Other Net Operating Expenses** – Other net operating expenses increased by R\$87.2 million or 34.2%, to R\$342.1 million in 2016, compared to R\$254.9 million in 2015. The increase is chiefly due to higher expectation of losses with bad debts, to the higher provisions for civil and labor risks, as well as the recognition of provision for investment loss and goodwill on associate.

# Finance Income

Annual Evolution



The finance income totaled R\$1,451.3 million in 2016, up 31.6% or R\$348.2 million over 2015, which reported a figure of R\$1,103.1 million. The main variations are described as follows:

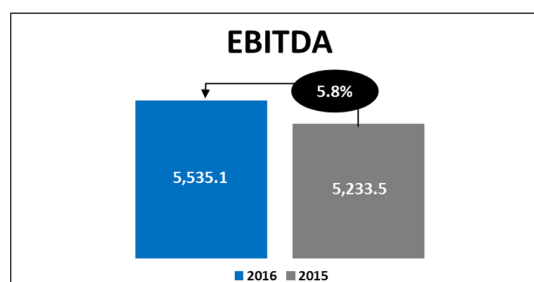
**Finance Income** – Finance income increased by R\$100.3 million or 69.4%, to R\$244.8 million in 2016, compared to R\$144.5 million in 2015. The increase is chiefly due to higher average balance of financial investments held by Cielo and Cateno, the latter due to minimum mandatory prudential capital held as financial investment by the subsidiary.

**Finance Costs** – Finance costs increased by R\$19.0 million or 1.6%, to R\$1,192.5 million in 2016, compared to R\$1,173.5 million in 2015. The increase in finance costs derives from higher interest rates incurred on public and private debentures due to higher DI rate, as well as the variation of market-to-market adjustment, partially offset by lower indebtedness with third parties.

**Purchase of Receivables Results** – The purchase of receivables, made by the Parent Company and FIDC, net of cost of funding with third parties and taxes on finance income totaled R\$2,409.8 million in 2016, up R\$280.0 million or 13.1%, compared to R\$2,129.8 million in 2015. The increase is chiefly due to higher financial volume of purchased receivables, higher acquisition of retail clients in relation to the Large Accounts, reduced funding to develop the product, partially offset by higher taxes (effective as of July 2015).

## EBITDA

Annual Evolution



The EBITDA totaled R\$5,535.1 million in 2016, up 5.8% over 2015 as shown below:

EBITDA (R\$ million)	2016	2015
Cielo Net Income	4,005.5	3,511.4
Noncontrolling interests	178.0	140.0
Finance income (costs)	(1,451.3)	(1,103.1)
Income tax and social contribution	1,837.3	1,783.4
Depreciation and amortization	965.7	901.8
<b>EBITDA</b>	<b>5,535.1</b>	<b>5,233.5</b>
<i>% EBITDA Margin</i>	<i>45.0%</i>	<i>47.1%</i>

EBITDA consists of profit, plus income tax and social contribution, depreciation and amortization expenses, and finance income (costs). It should be noted that, for its calculation, noncontrolling interests are added to the Parent Company's profit.

Management believes that the EBITDA is an important parameter for the investors because it provides relevant information about our operating results and profitability.

The EBITDA is not an accounting measurement used in accounting practices adopted in Brazil, it does not represent the cash flow for the reporting periods and it should not be considered as an alternative to profit as an operating performance indicator or as an alternative to cash flow as a liquidity indicator. Additionally, the EBITDA has limitations that impair its use as a profitability indicator since it does not consider certain costs related to the business, which could significantly impact the profit, such as finance costs, taxes, depreciation, capital expenditures and other related charges.

## CORPORATE GOVERNANCE

Corporate Governance is a priority for the Company, which has as one of its goals its continuous improvement to support sustainable, long-term corporate performance. In this spirit, the Company voluntarily adopts the best corporate governance practices other than those required for companies listed on BM&FBovespa Novo Mercado, evidencing the commitment of the Company and its Management with the interest of its shareholders and investors.

The maximization of its efficiency and creation of long-term value translate, for example, into: (a) the adoption of appropriate decision-making system and the monitoring of its compliance by the system; (b) the maintenance of a Corporate Governance Office, which aims to support management agencies and committees/advisory forums of the Company and its subsidiaries, as well as to ensure the compliance with the best corporate governance practices; (c) the adoption of ethical and sustainable conduct; (d) the formal performance assessment of the Board of Directors members on an individual and group basis; (e) the presence of distinct personnel holding the positions of Chairman of the Board of Directors and Chief Executive Officer; (f) the existence of an annual calendar and minimum agenda for the Board of Directors, covering the subjects to be discussed over the year in meetings previously scheduled; (g) the exchange of information through the Corporate Governance Electronic Portal; (h) the existence of a Policy on Related Party Transactions and situations involving Conflicts of Interest; and (i) the existence of a Code of Ethics mandatorily adhered by all employees and Management, which establishes rules of conduct in relationships with all stakeholders.

The Company's Board of Directors is composed of 11 (eleven) members, who do not perform management activities, out of which 3 (three) are independent, where their independence aims to protect the interests of the Company and its minority shareholders. The Board of Directors is responsible, among other attributions, for setting the general direction of the Company's business, electing the members of the Executive Board and oversees its management. Currently, the Company's Statutory Board is composed of five (5) members and performs the general management of the Company, respecting the guidelines defined by the Board of Directors. Moreover, as another evidence of the Company's adherence to the best Corporate Governance practices, the Board of Directors has five (5) advisory committees, namely: Audit Committee, Finance Committee, Corporate Governance Committee, People Management Committee and Sustainability Committee; and the Executive Board has 10 (ten) advisory forums: Risk Forum, Issuer Risk Forum, Earnings Release Forum, Ethics Forum, Expenses Forum, Business Continuity Management Forum, Social Investments Forum, Pricing Forum, Projects Forum, and Diversity Forum.

The Company's Supervisory Board, an independent management body, is currently set up to oversee management activities, and is composed of 5 (five) members, of which 1 (one) is an independent member. Cielo is committed to the inclusion of issues related to Sustainability in its practices, aiming at ensuring the successful business in the long term, contributing to a healthy environment, a fairer society and Brazil's social and economic development.

Such commitment occurs on the day by day, by means of consistent environmental practices, such as, for example, the establishment of a climate strategy, which includes the conducting and dissemination of a Greenhouse Gas (GHG) Inventory, in line with the best global practices, audited and published in the Public Registry of Emissions of GHG Protocol Brazilian Program and the compensation of carbon emissions; the investment in social projects to promote child and adolescent health, the education by means of sports and culture, the access to people with disabilities, qualification of the youth for the labor market and support to the elderly; and business solutions that promote the financial inclusion and ensure the formalization of economy. The generation of value to the Company and the stakeholders with whom we maintain relationship occurs by means of an ethical conduct, assumption which guides and permeates all Cielo's activities. Through the Code of Ethics, Cielo seeks to ensure the best corporate practices in the relationship with all its stakeholders.

In accordance with the principle of transparency, on April 29, 2016, the Company published its 2015 Sustainability Report, which was prepared based on the guidelines of the Global Reporting Initiative (GRI), G4 version, providing information on the Company's performance regarding the most significant aspects for the business sustainability, seeking to demonstrate its ability to generate long-term value to all its stakeholders. Such agenda of sustainability promotes business opportunities and enables competitive advantages to Cielo, perceived by the financial market and the entire society. As an example, Cielo, as of 2014 has adhered to the portfolio of the Corporate Sustainability Index (ISE) of BM&FBovespa, an acknowledgment which attests the Company's good management and corporate governance practices. Since 2015, the Company has been joining the Sustainability index Euronext-Vigeo EM70, which encompasses 70 companies with high performance in corporate responsibility in emerging markets, launched in 2015 by Vigeo, leading global rating agency focused on sustainability.

In September 2016, Cielo joined for the first time the portfolio of the Dow Jones Sustainability Index (DJSI), under the World category. In order to be included, companies go through a strict selection process, which analyzes the economic data, environmental and social performance, corporate governance, risk management, mitigation of climate change, labor practices, among other aspects. And, since 2011, the Company has been issuing the American Depositary Receipts (ADRs), Level I, listed on the international over-the-counter market OTCQX.

## **RELATIONSHIP WITH INDEPENDENT AUDITORS**

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Under CVM Rule 381/03, we inform that during 2016, the Company contracted the independent audit services of KPMG.

The Company's Policy for contracting independent audit services seeks to ensure that there are no conflicts of interest, loss of independence or objectivity. With this purpose, Cielo adopts in its policy to engage auditors the following internationally accepted principles: (a) the auditor should not audit his or her own work, (b) the auditor should not function in the role of management, and (c) the auditor should not serve in an advocacy role for his or her client.

Cielo declares that the independent auditors have provided services not related to external audit, consisting of (i) review of the Sustainability Report and Greenhouse Gases Inventory; (ii) issuance of the international certificate ISAE-3402, for subsidiary Me-S; (iii) limited assurance services of the Ourocard Payment Arrangement, conducted in accordance with NBC TO 3000 (ISAE 3000) for subsidiary Cateno; (iv) assessment of the applicability of the new rules issued by the Central Bank of Brazil, subject to means of payment entities; and (v) training on the requirements of BACEN and CMN. Those contracts met the company's corporate governance requirements, under which any extraordinary engagement of the independent audit firm that audits its financial statements directly or indirectly, needs to be previously analyzed by the Audit Committee and authorized by the Board of Directors. The amounts of the contracts represent 21.7% of the total audit fees related to the 2016 financial statements of Cielo and its subsidiaries Cateno, Cielo USA, Merchant e-Solutions, Orizon and associate Stelo.

*Performance reporting information on EBITDA, financial volume and number of transactions, discount rates, industry and sector information, net revenue additions, number of employees, total investments, and managerial revenue was not reviewed by the independent auditors.*

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**Cielo S.A.**

Individual and Consolidated  
Financial Statements for the  
Year Ended December 31, 2016 and  
Independent Auditor's Report





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## **Independent Auditors' report on the Financial Statements**

To the Shareholders and Management  
Cielo S.A.

Barueri - SP

### **Opinion**

We have audited the individual and consolidated financial statements of Cielo S.A. ("the Company"), respectively referred to as Company and Consolidated, which comprise the balance sheet as at December 31, 2016, the statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies and other informative information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Cielo S.A. as at December 31, 2016, and of its individual and consolidated financial performance and its cash flows for the year then ended, in accordance with Brazilian accounting practices and the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board - IASB.

### **Basis for Opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the *Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements* section. We are independent of Cielo S.A. and its subsidiaries, according to the relevant ethical principles established in the Code of Professional Ethics for Accountants and in the Professional Standards issued by the Federal Accounting Council (CFC), and we have fulfilled other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were considered the most significant in our audit of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming of our opinion thereon, and we do not provide a separate opinion on these matters.

#### **1. Process of capturing, processing and settling of transactions**

The Company maintains a plan for continuous systemic investment with the purpose of ensuring the operation and continuity of its operations related to the capture, processing and settlement of credit and debit card transactions and to maintain the security and reliability of the information presented in the individual and consolidated financial statements. In addition, the Company has implemented a process to monitor the registration and settlement of transactions, which includes reconciliations, comparison of information with reports from third parties, among other internal controls, which supports the integrity and accuracy in the registration of transactions and the automatic recognition of operating revenue and other information presented in the individual and consolidated financial statements, mainly related to balances payable to merchants and accounts receivable from issuing banks. Due to the high complexity inherent to the automatic process of capture, processing and settlement of transactions, which among others is the basis for the recognition of operating revenues, the importance of internal monitoring controls and the relevance of the amounts involved, we consider this area as relevant for our audit.

**How our audit addressed this matter**

With the technical support of our technology experts, we evaluate the design, implementation and operational effectiveness of the general information technology controls associated with the capture, processing and settlement of transactions with credit and debit cards and related accounts, considering logical and physical access controls, changes and development of systems in programs and infrastructure, copy and storage of information (Backup), besides of key automated controls related to the business processes defined as relevant, performing mapping and evaluation of accounting interfaces, access controls, business rules setups, and automated calculations. We also applied tests, by using sampling techniques, on the controls related to the registration and monitoring of balance sheet account amounts related to the transactions carried out (capture, processing and settlement of operations) and the recording of the respective operating income, as well as, running samples to test the accounting reconciliations of the main balances, evaluating the support documentation and the integrity of the records made. Our procedures also included the evaluation of the disclosures made by the Company in the individual and consolidated financial statements described in Note 5.

**2. Impairment evaluation of the intangible assets with defined useful lives and goodwill**

As described in Notes 8 and 10, the individual and consolidated financial statements include amounts of goodwill arising from the acquisition of investments and intangible assets with defined useful lives, whose realization is supported by estimates of future profitability based on the business plan prepared by the Company. Due to the relevance and the high level of judgment involved in the process of determining the estimates of projections of future profitability of cash generating unit for the purposes of evaluating the impairment of such assets, we consider this area as relevant to our audit.

**How our audit addressed this matter**

We evaluated the design, implementation and operational effectiveness of the relevant internal controls related to the preparation and review of the business plan, budget, technical studies and analyses of the recoverable value of goodwill and intangible assets. Additionally, we analyzed, with technical support from our valuation specialists, the reasonableness and consistency of the data and assumptions used in the preparation of these documents, such as growth rates, discount rates, cash flow projections and profitability estimates, as well as analyzed the reasonableness of the mathematical calculations included in such documents. Our procedures also included the evaluation of the disclosures made by the Company in the individual and consolidated financial statements described in Notes 8 and 10.

***Other matters******Statements of value added***

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company's management, that is being presented as supplemental information for IFRS purposes, were subject to subject to the same auditing procedures described above. For the purposes of forming our opinion, we assess whether these statements are conciliated with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria set forth in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria set forth in this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

**Other information accompanying the individual and consolidated financial statements and the auditor's report**

The Company's management is responsible for other information that comprises the Management Report. Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report, and, doing so, consider whether the other information is, on all material respects, inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report in this regard.

**Responsibilities of the management and those charge with governance for the individual and consolidate financial statements**

Management is responsible for the preparation and fair presentation of individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards — IFRS issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's responsibilities for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in according to the Brazilian and international auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual and consolidated financial statements.

As part of an audit performed according to Brazilian and international auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the individual and consolidated financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Osasco, January 30, 2017

KPMG Auditores Independentes  
CRC 2SP028567/O-1 F-SP  
*Original report in Portuguese signed by*

André Dala Pola  
Accountant CRC 1SP214007/O-2

Cielo S.A.

Statements of financial position at December 31, 2016 and 2015

(In thousands of Brazilian Reals - R\$)

	Notes	Parent Company		Consolidated			Notes	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015			12/31/2016	12/31/2015		
<b>Assets</b>						<b>Liabilities and Equity</b>					
<b>Current Assets</b>						<b>Current Liabilities</b>					
Cash and cash equivalents	4	933,048	44,487	2,658,956	1,249,524	Payables to merchants	12	1,196,978	891,898	1,924,255	1,503,254
Trade receivables	5	1,713,425	10,153,664	11,014,048	11,151,905	Prepayment of receivables from card-issuing banks	11	574,604	1,269,190	574,604	1,269,190
Receivables from related parties	29	1,661	1,587	-	459	Borrowings	13	2,920,324	3,290,353	2,921,002	3,291,228
Investment Fund in Credit Rights	6	8,310,458	-	-	-	Trade payables		725,226	554,834	837,583	663,214
Prepaid and recoverable taxes		-	-	9,416	1,814	Taxes payable	14	367,617	158,192	409,789	275,733
Prepaid expenses		11,838	10,369	23,770	17,350	Payables to related parties	29	21,472	17,808	-	398
Derivative financial instruments	28	-	213,314	-	213,314	Dividends payable	17.h)	587,560	540,938	587,560	540,938
Other receivables		13,067	16,736	37,210	41,488	Derivative financial instruments payable	28	37,665	-	37,665	-
						Other payables	15	215,719	176,256	560,322	519,999
<b>Total current assets</b>		<b>10,983,497</b>	<b>10,440,157</b>	<b>13,743,400</b>	<b>12,675,854</b>	<b>Total current liabilities</b>		<b>6,647,165</b>	<b>6,899,469</b>	<b>7,852,780</b>	<b>8,063,954</b>
<b>Noncurrent Assets</b>						<b>Noncurrent liabilities</b>					
Financial investments	13.e)	75,481	66,124	75,481	66,124	Borrowings	13	6,557,747	8,437,535	7,870,107	10,008,265
Deferred income tax and social contribution	7.a)	870,720	650,169	976,607	744,893	Provision for tax, civil and labor risks	16.a)	1,634,748	1,401,073	1,659,419	1,420,270
Escrow deposits	16.b)	1,514,389	1,296,203	1,522,612	1,302,455	Deferred income tax and social contribution	7.b)	-	-	224,329	303,678
Other receivables		14,967	11,766	39,195	41,352	Other payables	15	33,112	11,804	34,445	17,667
Investments	8	9,809,287	9,934,761	104,353	105,108	<b>Total noncurrent liabilities</b>		<b>8,225,607</b>	<b>9,850,412</b>	<b>9,788,300</b>	<b>11,749,880</b>
Property and equipment	9	586,401	720,204	640,099	751,517	<b>Equity</b>					
Intangible assets	10	261,431	151,174	13,442,323	14,290,498	Issued capital	17.a)	3,500,000	2,500,000	3,500,000	2,500,000
						Capital reserve	17.b)	66,689	64,305	66,689	64,305
<b>Total noncurrent assets</b>		<b>13,132,676</b>	<b>12,830,401</b>	<b>16,800,670</b>	<b>17,301,947</b>	Capital transactions between shareholders	17.c)	(82,284)	-	(82,284)	-
						Treasury shares	17.d)	(103,967)	(140,648)	(103,967)	(140,648)
						Comprehensive income	17.e)	10,989	13,401	10,989	13,401
						Earnings reserves	17.f) and g)	5,851,974	4,083,619	5,851,974	4,083,619
						<b>Attributable to:</b>					
						Owners of the Company		9,243,401	6,520,677	9,243,401	6,520,677
						Noncontrolling interests		-	-	3,659,589	3,643,290
						<b>Total equity</b>		<b>9,243,401</b>	<b>6,520,677</b>	<b>12,902,990</b>	<b>10,163,967</b>
<b>Total Assets</b>		<b>24,116,173</b>	<b>23,270,558</b>	<b>30,544,070</b>	<b>29,977,801</b>	<b>Total Liabilities and Equity</b>		<b>24,116,173</b>	<b>23,270,558</b>	<b>30,544,070</b>	<b>29,977,801</b>

The accompanying notes are an integral part of these financial statements.

# Cielo S.A.

## Statements of profit or loss

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais - R\$, except earnings per share)

	Notes	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net revenue	19	7,366,989	6,943,221	12,300,784	11,122,314
Cost of services provided	20	(2,313,785)	(2,199,048)	(5,994,759)	(5,310,684)
Gross profit		5,053,204	4,744,173	6,306,025	5,811,630
<b>Operating income (expenses)</b>					
Personnel	20	(283,002)	(254,110)	(526,131)	(464,556)
General and administrative	20	(415,005)	(406,003)	(561,952)	(520,063)
Sales and marketing	20	(308,841)	(234,186)	(320,413)	(243,828)
Share of profit (loss) of investees	8	382,954	342,834	14,003	3,368
Other operating expenses, net	20 and 21	(239,831)	(229,971)	(342,066)	(254,867)
Operating profit		4,189,479	3,962,737	4,569,466	4,331,684
<b>Finance income (costs)</b>					
Finance income	27	110,213	69,437	244,783	144,479
Finance costs	27	(1,136,787)	(1,123,650)	(1,192,537)	(1,173,530)
Income from purchase of receivables and FIDC	27	2,410,662	2,132,223	2,409,800	2,129,827
Exchange differences, net	27	(10,800)	2,190	(10,736)	2,371
		1,373,288	1,080,200	1,451,310	1,103,147
Operating profit before income tax and social contribution		5,562,767	5,042,937	6,020,776	5,434,831
<b>Income tax and social contribution</b>					
Current	7	(1,777,868)	(1,439,821)	(2,100,867)	(1,813,139)
Deferred	7	220,551	(91,680)	263,587	29,741
Profit for the year		4,005,450	3,511,436	4,183,496	3,651,433
<b>Attributable to:</b>					
Owners of the Company				4,005,450	3,511,436
Noncontrolling interests				178,046	139,997
				4,183,496	3,651,433
Earnings per share (in R\$) - Basic	18	1.77334	1.55583	1.77334	1.55583
Earnings per share (in R\$) - Diluted	18	1.77036	1.55184	1.77036	1.55184

The accompanying notes are an integral part of these financial statements

**Cielo S.A.****Statements of comprehensive income***(In thousands of Brazilian Reals - R\$)***For the years ended December 31, 2016 and 2015**

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Profit for the year	4,005,450	3,511,436	4,183,496	3,651,433
Comprehensive income				
Exchange differences on translating foreign operations:				
Exchange differences on foreign investments	(202,708)	394,934	(202,708)	394,934
Gains and losses on hedging instruments of foreign operations, net of taxes	<u>200,296</u>	<u>(387,502)</u>	<u>200,296</u>	<u>(387,502)</u>
Changes for the year	<u>(2,412)</u>	<u>7,432</u>	<u>(2,412)</u>	<u>7,432</u>
Total comprehensive income for the year	<u>4,003,038</u>	<u>3,518,868</u>	<u>4,181,084</u>	<u>3,658,865</u>
<b>Attributable to:</b>				
Owners of the Company			<u>4,003,038</u>	<u>3,518,868</u>
Noncontrolling interests			<u>178,046</u>	<u>139,997</u>

The accompanying notes are an integral part of these financial statements.



Cielo S.A.

Statements of changes in equity

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian Reals - R\$)

	Attributable to owners of the Company											
	Issued capital	Capital reserve	Treasury shares	Capital transactions	Earnings reserves				Comprehensive Income	Total owners of the Company	Noncontrolling interests	Total equity
Legal reserve					Capital budget	Additional dividends	Earnings retention					
<b>Balance at Dezembro 31, 2014</b>	<b>2,000,000</b>	<b>75,854</b>	<b>(194,478)</b>	<b>-</b>	<b>360,992</b>	<b>1,776,914</b>	<b>283,859</b>	<b>-</b>	<b>5,969</b>	<b>4,309,110</b>	<b>15,290</b>	<b>4,324,400</b>
Dividends paid in addition to the minimum mandatory dividends in 2014	-	-	-	-	-	-	(283,859)	-	-	(283,859)	-	(283,859)
Capital increase	500,000	-	-	-	-	(500,000)	-	-	-	-	-	-
Acquisition of treasury shares	-	-	(17,304)	-	-	-	-	-	-	(17,304)	-	(17,304)
Stock options granted	-	22,952	-	-	-	-	-	-	-	22,952	-	22,952
Sale of treasury shares under the stock option plan	-	(34,501)	71,134	-	-	-	-	-	-	36,633	-	36,633
Profit for the year	-	-	-	-	-	-	-	3,511,436	-	3,511,436	139,997	3,651,433
Allocation of profit for the year:												
Legal reserve	-	-	-	-	139,008	-	-	(139,008)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(410,685)	-	(410,685)	-	(410,685)
Minimum dividends proposed	-	-	-	-	-	-	-	(401,538)	-	(401,538)	-	(401,538)
Interest on capital paid	-	-	-	-	-	-	-	(114,100)	-	(114,100)	-	(114,100)
Interest on capital proposed	-	-	-	-	-	-	-	(139,400)	-	(139,400)	-	(139,400)
Capital budget reserve	-	-	-	-	-	2,306,705	-	(2,306,705)	-	-	-	-
Effect of non-controlling interests on consolidated entities	-	-	-	-	-	-	-	-	-	-	3,488,003	3,488,003
Comprehensive income:												
Exchange differences on translating foreign operations:												
Exchange differences on net foreign investments	-	-	-	-	-	-	-	-	394,934	394,934	-	394,934
Gains and losses on hedging instruments of foreign operations, net of taxes	-	-	-	-	-	-	-	-	(387,502)	(387,502)	-	(387,502)
<b>Balance at December 31, 2015</b>	<b>2,500,000</b>	<b>64,305</b>	<b>(140,648)</b>	<b>-</b>	<b>500,000</b>	<b>3,583,619</b>	<b>-</b>	<b>-</b>	<b>13,401</b>	<b>6,520,677</b>	<b>3,643,290</b>	<b>10,163,967</b>
Capital increase	17.a) 1,000,000	-	-	-	-	(1,000,000)	-	-	-	-	-	-
Acquisition of treasury shares	17.d) -	-	(24,904)	-	-	-	-	-	-	(24,904)	-	(24,904)
Stock options granted	26 -	31,067	-	-	-	-	-	-	-	31,067	-	31,067
Sale of treasury shares under the stock option plan	26 and 17.d) -	(28,683)	61,585	-	-	-	-	-	-	32,902	-	32,902
Acquisition of non-controlling interest, without change in control	17. c) -	-	-	(82,284)	-	-	-	-	-	(82,284)	(17,849)	(100,133)
Profit for the year	-	-	-	-	-	-	-	4,005,450	-	4,005,450	178,046	4,183,496
Allocation of profit for the year:												
Legal reserve	17.f) -	-	-	-	200,000	-	-	(200,000)	-	-	-	-
Mandatory minimum dividends paid	17.h) -	-	-	-	-	-	-	(374,365)	-	(374,365)	-	(374,365)
Mandatory minimum dividends proposed	17.h) -	-	-	-	-	-	-	(376,930)	-	(376,930)	-	(376,930)
Interest on capital paid	17.h) -	-	-	-	-	-	-	(238,000)	-	(238,000)	-	(238,000)
Interest on capital proposed	17.h) -	-	-	-	-	-	-	(247,800)	-	(247,800)	-	(247,800)
Capital budget reserve	17.g) -	-	-	-	-	2,568,355	-	(2,568,355)	-	-	-	-
Effect of noncontrolling interests on consolidated entities	-	-	-	-	-	-	-	-	-	-	(143,898)	(143,898)
Comprehensive income:												
Exchange differences on translating foreign operations:												
Exchange differences on net foreign investments	-	-	-	-	-	-	-	-	(202,708)	(202,708)	-	(202,708)
Gains and losses on hedging instruments of foreign operations, net of taxes	-	-	-	-	-	-	-	-	200,296	200,296	-	200,296
<b>Balance at December 31, 2016</b>	<b>3,500,000</b>	<b>66,689</b>	<b>(103,967)</b>	<b>(82,284)</b>	<b>700,000</b>	<b>5,151,974</b>	<b>-</b>	<b>-</b>	<b>10,989</b>	<b>9,243,401</b>	<b>3,659,589</b>	<b>12,902,990</b>

The accompanying notes are an integral part of these financial statements.

## Cielo S.A.

### Statements of cash flows

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian Reals - R\$)

Notes	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash flows from operating activities				
Profit before income tax and social contribution	5,562,767	5,042,937	6,020,776	5,434,831
Adjustments to reconcile profit before income tax and social contribution to net cash generated by operating activities:				
Depreciation and amortization	9 and 10	424,207	423,568	965,682
Recognition of provision for losses on property and equipment		14,107	22,004	14,107
Residual value of property and equipment and intangible assets disposed of	9 and 10	35,488	43,525	39,295
Stock option granted	26	31,067	22,952	31,067
Loss on doubtful debts and fraud	21	161,363	148,350	221,070
Provision for tax, civil and labor risks	16.a)	244,460	206,878	250,429
Unearned revenue from purchase of receivables	5	(338,406)	94,126	(23,750)
Noncontrolling interests		-	-	178,046
Exchange differences relating to interest on foreign borrowings		(199,524)	228,225	(199,524)
Gains (losses) on financial instruments		202,531	(213,314)	202,531
Interest on borrowings	13	1,114,941	1,120,271	1,169,352
Provision for losses on investments	8	-	-	23,997
Share of profit (loss) of investees	8	(382,954)	(342,834)	(14,003)
Yield from interest in FIDC	6	(591,622)	-	-
(Increase) decrease in operating assets:				
Trade receivables		8,778,645	(1,068,195)	161,607
Receivables from related parties		(74)	(1,472)	459
Prepaid and recoverable taxes		-	1,060	(7,602)
Other receivables (current and noncurrent)		(8,889)	(73,387)	(2,924)
Escrow deposits	16.b)	(218,186)	(193,166)	(220,157)
Prepaid expenses		(1,469)	(4,462)	(6,420)
Increase (decrease) in operating liabilities:				
Payables to merchants		(550,869)	(1,167,367)	(494,655)
Trade payables		170,392	(58,827)	174,369
Taxes payable		43,798	40,759	40,137
Payables to related parties		3,664	5,598	(398)
Other payables (current and noncurrent)		60,771	24,692	(120,944)
Payment of tax, civil and labor lawsuits	16.a)	(10,784)	(11,232)	(11,279)
Cash generated from operations		14,545,424	4,290,689	8,391,268
Interest paid	13	(1,155,577)	(805,969)	(1,208,344)
Income tax and social contribution paid		(1,658,814)	(1,517,000)	(2,053,521)
Net cash generated by operating activities		11,731,033	1,967,720	5,129,403
Cash flows from investing activities				
Capital increase in subsidiaries, joint ventures and associate	8	(12,040)	(8,422,930)	(9,240)
Acquisition of quotas of FIDC		(8,149,644)	-	-
Redemption of quotas of FIDC		430,808	-	-
Dividends received from subsidiaries	8	335,609	251,793	-
Goodwill on investments in subsidiaries and associate	8	-	-	(14,999)
Additions to property and equipment and intangible assets	9 and 10	(450,257)	(532,529)	(526,718)
Net cash used in investing activities		(7,845,524)	(8,703,666)	(535,958)
Cash flows from financing activities				
Acquisition of treasury shares	17.d)	(24,904)	(17,304)	(24,904)
Sale of treasury shares under the stock option plan		32,902	36,633	32,902
Acquisition of interest in subsidiary, with no change in control	8	(100,133)	-	(100,133)
Borrowings	13	1,114,441	9,293,027	1,114,441
Payment of principal, net of derivatives		(2,772,171)	(4,963,308)	(2,772,171)
Dividends and interest on capital		(1,247,083)	(1,326,652)	(1,390,981)
Net cash generated by (used in) financing activities		(2,996,948)	3,022,396	(3,140,846)
Effect of exchange rate changes on cash and cash equivalents of foreign subsidiary		-	-	(43,167)
Increase (decrease) in cash and cash equivalents		888,561	(3,713,550)	1,409,432
Cash and cash equivalents				
At the end of the year	4	933,048	44,487	2,658,956
At the beginning of the year	4	44,487	3,758,037	1,249,524
Increase (decrease) in cash and cash equivalents		888,561	(3,713,550)	1,409,432

The accompanying notes are an integral part of these financial statements.

## Cielo S.A.

### Statements of value added

For the years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais - R\$)

	Notes	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>REVENUES</b>					
Sales of services	19	8,194,258	7,722,308	13,543,949	12,236,954
Loss on doubtful debts and fraud	21	(161,363)	(148,350)	(221,070)	(172,345)
		<u>8,032,895</u>	<u>7,573,958</u>	<u>13,322,879</u>	<u>12,064,609</u>
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>					
Cost of services provided		(1,759,136)	(1,640,745)	(5,041,684)	(4,396,734)
Materials, electric energy, outside services and others		(685,504)	(602,797)	(618,154)	(530,849)
Other expenses, net		(34,774)	(16,777)	(52,149)	(23,074)
Impairment of assets		(46,693)	(64,843)	(71,845)	(65,213)
		<u>(2,526,107)</u>	<u>(2,325,162)</u>	<u>(5,783,832)</u>	<u>(5,015,870)</u>
<b>GROSS VALUE ADDED</b>		<u>5,506,788</u>	<u>5,248,796</u>	<u>7,539,047</u>	<u>7,048,739</u>
<b>Retentions</b>					
Depreciation and amortization	9 and 10	(424,207)	(423,568)	(965,683)	(901,827)
<b>WEALTH CREATED, NET</b>		<u>5,082,581</u>	<u>4,825,228</u>	<u>6,573,364</u>	<u>6,146,912</u>
<b>WEALTH RECEIVED IN TRANSFER</b>					
Share of profit (loss) of investees	8	382,954	342,834	14,003	3,368
Finance income, including purchase of receivables and exchange differences, net	27	2,801,527	2,463,438	2,941,840	2,538,830
		<u>3,184,481</u>	<u>2,806,272</u>	<u>2,955,843</u>	<u>2,542,198</u>
<b>TOTAL WEALTH FOR DISTRIBUTION</b>		<u>8,267,062</u>	<u>7,631,500</u>	<u>9,529,207</u>	<u>8,689,110</u>
<b>DISTRIBUTION OF WEALTH</b>					
Personnel and related taxes		(318,410)	(294,418)	(575,667)	(514,782)
Profit sharing	24	(69,826)	(68,690)	(93,695)	(90,022)
Taxes and contributions		(2,578,600)	(2,416,108)	(3,313,483)	(3,030,006)
Interest and rental expenses		(1,294,775)	(1,340,848)	(1,362,865)	(1,402,867)
Dividends and interest on capital paid		(612,365)	(524,785)	(612,365)	(524,785)
Dividends and interest on capital proposed		(624,730)	(540,938)	(624,730)	(540,938)
Earnings retention		(2,768,356)	(2,445,713)	(2,768,356)	(2,445,713)
Noncontrolling interests		-	-	(178,046)	(139,997)
<b>WEALTH DISTRIBUTED</b>		<u>(8,267,062)</u>	<u>(7,631,500)</u>	<u>(9,529,207)</u>	<u>(8,689,110)</u>

The accompanying notes are an integral part of these financial statements



## **Notes to the individual and consolidated financial statements**

*(Amounts in thousands of Brazilian Reals - R\$, unless otherwise stated)*

### **1 Operations**

Cielo S.A. (the “Company” or “Cielo”) was established in Brazil on November 23, 1995, and is primarily engaged in providing services related to credit and debit cards and other means of payment, including signing up of merchants and service providers, rental, installation and maintenance of POS (point-of-sale) terminals, data capture, and processing of electronic and manual transactions.

Cielo is a corporation headquartered in Barueri, State of São Paulo. Cielo’s shares are traded on BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, under ticker symbol “CIEL3”, and its subsidiaries comprise Banco do Brasil and Bradesco groups.

The Company’s direct and indirect subsidiaries, joint ventures and associate that, together with Cielo, are also referred to as "Group" throughout this report, provide services related to means of payment or complementary to the acquiring services, such as provision of services in processing means of payments that involve cards, maintenance services and contacts with merchants for acceptance of credit and debit cards, data transmission services to load fixed or mobile phone credits, software development and licensing of computer programs, electronic transactions processing, IT services for collection and management of accounts payable and receivable using the Internet, data processing services and support services to medical companies.

#### **Significant events for the year 2016**

We highlight the following events that significantly affected the Company’s financial position for the year ended December 31, 2016:

- Increase in Cielo’s profit by R\$ 494,014 or 14.1% when comparing the years ended December 31, 2016 and 2015;
- On August 5, 2016, Cielo’s Investment Fund in Credit Rights started its operations;
- On September 30, 2016, dividends and interest on capital were paid out totaling R\$ 612,366 on the profit earned in the first half of 2016;
- In 2016, dividends and interest on capital of R\$ 1,237,095 were 16.1% higher than those paid in the previous year.

#### **New corporate business**

- Increase in interest in the capital of Multidisplay

On August 27, 2015, Cielo communicated the market in general and other stakeholders that it had signed documents to increase interest in its direct subsidiary Multidisplay, which is the parent company of M4Produtos. On July 4, 2016, after the fulfillment of the suspensive conditions relating to the transaction, among them the authorizations from the Central Bank of Brazil and the CADE (Brazilian Antitrust Agency), the Company completed the formal



procedures for increasing its interest in Multidisplay from 50.10% to 91.44%, through the investment of R\$89.7 million, of which R\$82.7 million (fixed remuneration) and R\$7.0 million (variable remuneration, “earn-out”), both inflation adjusted by the variation of 100% of the DI, amounting to a total investment of R\$100.1 million at the date of closing of the transaction. This investment aims to consolidate its leadership position in technology platforms that encourage the adoption of mobile payments in the country. Furthermore, the increase in interest represents a greater control over the Company’s strategic decisions, allowing better synergies and guidance to meet Cielo’s needs.

- **Investment Fund in Nonstandard Credit Rights Cielo**

In August 2016 the operations of Investment Fund in Nonstandard Credit Rights Cielo (“FIDC”) were started, for an indeterminate period with the specific purpose of concentrating the operation of purchase of receivables made on Cielo’s acquisition system. In the operation period started on August 5 through December 31, 2016, R\$7,718.8 million were contributed by Cielo for the beginning of operations of the fund. FIDC was created with the main purpose of supporting the operation of purchase of receivables using a known instrument of the capital market, regulated by the Brazilian Securities and Exchange Commission. See note 6 for further details on the creation and accounting treatment of FIDC.

## **2 Summary of significant accounting policies**

### **2.1 Statement of compliance**

The Company’s individual (Parent Company) and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and accounting practices adopted in Brazil which include those established in the Brazilian Corporate Law, as well as the technical pronouncements, guidance and interpretations issued by the Accounting Pronouncements Committee (“CPC”) and approved by the Brazilian Securities and Exchange Commission (“CVM”).

### **2.2 Basis of preparation**

The financial statements have been prepared based on the historical cost, unless otherwise stated. Historical cost is generally based on the fair value of the consideration paid in exchange for assets.

### **2.3 Functional and presentation currency**

The individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the Company’s functional and presentation currency.

Management determined that the functional currency of its foreign subsidiaries is the US dollar. For Cielo USA, the main factor to determine the functional currency was the raising of US dollar denominated borrowings for the acquisition of control of Me-S. These borrowings will be settled using the cash generated by foreign operations. In addition, with respect to Me-S, the cash flows and services provided are fully denominated in US dollars.

For purposes of presentation of the consolidated financial statements, the assets and liabilities of subsidiaries Cielo USA and Me-S (based in the USA), originally denominated in US dollars, were translated into Brazilian reais at the exchange rates prevailing at each year end. Profits or



losses were translated at the average monthly exchange rates . Exchange differences resulting from such translations were classified in comprehensive income and accumulated in equity.

The goodwill and fair value adjustments of identifiable assets acquired and liabilities assumed arising from the acquisition of a foreign operation are recognized as assets and liabilities of such operation and translated at the exchange rate prevailing at the end of the reporting year. Exchange differences are recognized in equity.

## **2.4 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, less estimated returns, trading discounts and/or bonuses granted and other similar deductions.

Revenues from the capture of transactions with credit and debit cards are recognized on the date of capture/processing of the transactions. Revenues from credit and debit card transactions and payment accounts management services, as well as other services provided to partners and merchants are recognized when the services are provided.

The income from dividends on investments is recognized when the shareholder's right to receive these dividends is established (provided that it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

The revenue from purchase of receivables to merchants is recognized on a "*pro rata temporis*" basis considering their maturities.

In the case of Me-S, in the context of its agreements with the banks, it assumes liabilities of the acquirer bank and is, therefore, accountable for the interchange rates. The bank also receives market rates for its services and, therefore, is not exposed to the agreement's risks and rewards. Additionally, there are factors such as the portability of the contracts with merchants and the fact that Me-S has a direct interaction with its clients, on a daily basis, and it holds the transaction's credit risk. As a result, Me-S is the main debtor and recognizes revenue based on its gross amount and the interchange is recognized as cost of services.

## **2.5 Cash and cash equivalents**

Include cash, bank accounts and highly-liquid, short-term investments with insignificant risk of change in fair value, stated at fair value. Cash and cash equivalents are classified as financial instruments and their income is recognized in profit or loss for the year.

## **2.6 Trade receivables and payables to merchants**

- a.** Purchase of receivables - receivables from card-issuing banks related to purchase of receivables, stated at purchased value, determined on an individual basis, less cash flows from each of the receivables recorded using the interest rates applied to such transactions.
- b.** Receivables for processed financial transactions - refer mainly to receivables from card association members for financial transactions processed by Me-S that were authorized but not yet received. These receivables are generally settled on the following business day.



- c. Receivables from merchants - represent interchange and service fees for transaction processing receivable from merchants, as a result of Me-S's practice to settle transactions at full amounts to merchants and collect these fees at the beginning of the next month.
- d. Transactions pending transfer - refer to transactions carried out by the holders of credit and debit cards issued by financial institutions, consisting of receivables from card-issuing banks, less interchange fees and payables to merchants less management fees (discount rate); both with maturities of less than one year.
- e. Payables to merchants for transactions processed by Me-S - refer to the balances due to customers for processed transactions that have not yet been paid. Me-S pays merchants the amounts received from card association members on the business day subsequent to the day the transaction is captured.
- f. Merchant deposits - Me-S maintains funds as a security deposit to hedge against the risk of a customer going bankrupt and being unable to pay for the services provided. The amount withheld from each customer is based on the risk factors associated to the customer, which include, among others, the type of business and the volume of completed transactions.

## 2.7 Property and equipment

Stated at historical cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets. The estimated useful lives, residual values, and depreciation methods are reviewed on an annual basis, and the effect of any changes in estimates is accounted for on a prospective basis.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its continued use. Any gain or loss from the sale or derecognition of an item of property and equipment is determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

## 2.8 Intangible assets

### *Separately acquired intangible assets*

Separately acquired intangible assets with finite useful lives are stated at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis, based on the estimated useful lives of the assets. The estimated useful life and amortization method are reviewed on an annual basis and the effect of any changes in estimates is accounted for on a prospective basis.

### *Intangible assets acquired in a business combination*

In the consolidated financial statements, intangible assets acquired in a business combination and recognized separately from goodwill are stated at fair value at the acquisition date, which is equivalent to their cost.

### *Internally generated intangible assets*

Expenditure on research is recognized as expense when incurred. When no internally generated intangible asset can be recognized, the development costs are recognized in profit or loss when incurred.



### ***Impairment of tangible and intangible assets excluding goodwill***

Annually, and if there is evidence, the Group reviews the carrying amount of its tangible and intangible assets to determine if there is any indication that these assets might be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, and the impairment loss is immediately recognized in profit or loss.

## **2.9 Business combinations**

In the consolidated financial statements, business combinations are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value. Acquisition-related costs are recognized in profit or loss when incurred. The identifiable assets acquired and liabilities assumed are recognized at fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the noncontrolling interest in the acquiree and the fair value of the acquirer's interest previously held in the acquiree on the net amounts at the date of acquisition of the identifiable assets acquired and liabilities assumed.

## **2.10 Goodwill**

Goodwill arising from a business combination is stated at cost on the date of the business combination, less accumulated impairment loss, if any. For impairment testing purposes, goodwill is allocated to each of the cash-generating units that will benefit from the synergies of the business combination. The cash-generating units to which goodwill is allocated are tested for impairment annually or more frequently, when there is any indication of impairment.

If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and subsequently to the other assets of the cash-generating unit, proportionally to the carrying amount of each of its assets.

The goodwill arising from investments in subsidiaries, associate and joint ventures is included in the carrying amount of the investment in the individual financial statements. In the consolidated financial statements, the goodwill arising from the acquisition of subsidiaries is recognized in intangible assets.

## **2.11 Income tax and social contribution - current and deferred**

Income tax and social contribution expenses represent the sum of current and deferred taxes.

### ***Current taxes***

The provision for the Company's income tax and social contribution is calculated based on the taxable profit for the year. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable profit exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted profit.

### ***Deferred taxes***

Deferred income tax and social contribution are recognized on the differences between assets and liabilities recognized for tax purposes and the related amounts recognized in the consolidated financial statements. Deferred income tax and social contribution are determined





based on the tax rates and laws in effect at the end of the reporting period and applicable when the respective income tax and social contribution are paid. The recovery of deferred tax assets is reviewed at the end of each reporting period and when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the assets, these are adjusted to their expected recoverable amount.

Current and deferred taxes are recognized in profit or loss, except when they relate to items recognized in "Comprehensive income", or directly in equity. In these cases, current and deferred taxes are recognized in "Comprehensive income", in equity.

When current and deferred taxes result from the initial recognition of a business combination, the tax effect is considered in the recognition of the business combination.

## **2.12 Employee benefits**

The Company is co-sponsor of a defined contribution pension plan. Contributions are made based on a percentage of the employee's compensation. Payments to defined contribution plans are recognized as expense when the services that entitle to such payments are provided.

## **2.13 Provision for risks**

Recognized when there is a present obligation (legal or constructive) as a result of a past event, with probable outflow of resources, and the amount of the obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the settlement amount at the end of the reporting period, taking into consideration the risks and uncertainties related to the obligation. Provisions for tax lawsuits are recognized based on the total taxes under litigation, plus inflation adjustment and late payment interest incurred through the end of the reporting period.

## **2.14 Dividends and interest on capital**

The proposed distribution of dividends and interest on capital made by the Company's Management that does not exceed the minimum mandatory dividends is recognized in line item "Dividends payable" in current liabilities as it is considered a legal obligation under the Company's bylaws. However, the portion of dividends exceeding minimum mandatory dividends, when applicable, declared by Management after the accounting period to which the financial statements refers but before the issuance of the financial statements is authorized is recognized in line item "Additional dividends proposed" in equity, whose effects are disclosed in note 16(h). For corporate and accounting purposes, interest on capital is stated as allocation of profit or loss directly in equity.

## **2.15 Stock option and restricted shares plan**

The Company offers a stock option and restricted shares plan to its officers and some of its employees, and to the officers and employees of its subsidiary Servinet. Options or shares are priced at fair value at the grant date of the plans and are recognized on a straight-line basis in profit or loss as an offsetting entry to equity. At the end of each reporting period, the Company reviews its estimates of the number of vested options/shares based on the plan's terms and conditions and recognizes the impact of the revision of initial estimates, if any, in the statements of profit or loss, as an offsetting entry to equity.



## **2.16 Financial assets and financial liabilities**

### **a. Financial assets**

Financial assets are classified into the following specific categories: (i) at fair value through profit or loss; (ii) held to maturity; (iii) loans and receivables; and (iv) available for sale. Classification is made according to the nature and purpose of the financial assets and is determined upon initial recognition.

#### *Financial assets at fair value through profit or loss*

Financial assets are measured at fair value through profit or loss when they are held for trading or, upon initial recognition, are designated as at fair value through profit or loss. A financial asset is classified as held for trading if it is: (i) acquired principally for the purpose of selling it in the near term; (ii) part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of short-term profit-taking; (iii) a derivative that is not a designated and effective hedging instrument in hedge accounting. Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses recognized in profit or loss for the year. Net gains or losses recognized in profit or loss include dividends or interest earned by the financial asset.

#### *Financial assets held to maturity*

Financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity are classified as held to maturity. Held-to maturity financial assets are measured at amortized cost using the effective interest method, less the allowance for impairment losses. Interest income is recognized using the effective interest method.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, measured at amortized cost using the effective interest method, less the allowance for impairment losses. Interest income is recognized by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets designated as available for sale and not classified in any of the categories above. Available-for-sale financial assets are measured at fair value. Interest, inflation adjustment and exchange rate changes, if applicable, are recognized in profit or loss when incurred. Changes arising from fair value measurement are recognized in a specific line item of equity when incurred, and are charged to profit or loss when realized or considered unrecoverable.

### **b. Financial liabilities**

Financial liabilities are classified as follows: (i) at fair value through profit or loss; or (ii) as other financial liabilities.

#### *Financial liabilities at fair value through profit or loss*

This category includes financial liabilities held for trading or measured at fair value through profit or loss.



Financial liabilities at fair value through profit or loss are stated at fair value, with any gains and losses recognized in profit or loss. Net gains or losses recognized in profit or loss comprise any interest paid on financial liabilities.

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on a yield basis.

**2.17 Derivative financial instruments and Hedging**

The Company enters into derivative financial instruments mainly to manage its exposure to fluctuations in interest rates and exchange rates. The Company measures its derivative financial instruments based on quotations obtained from market participants, at fair value at the end of the reporting period.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge or a net investment hedge are recorded in the statements of comprehensive income and when a derivative is qualified as fair value hedge, both the hedged item and the hedging instrument are recorded in the statements of profit or loss at their fair values.

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging instrument is sold, terminated, expires or is exercised, the cumulative unrealized gain or loss, which had been recognized in the statements of comprehensive income, is reclassified immediately to the statements of profit or loss. Additionally, changes in the fair value of financial instruments not designated for hedge accounting are recognized in line item (Losses) gains on financial instruments, net, in the statements of profit or loss.

**2.18 Use of estimates**

The preparation of individual and consolidated financial statements requires the Company's and its subsidiaries' Management to make estimates that affect certain assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses for the year. Significant assets and liabilities subject to these estimates include the residual value of property and equipment and intangible assets, allowance for doubtful debts (on receivables from rental of POS equipment), deferred income tax and social contribution, financial instruments, impairment of goodwill and provision for risks. Since Management's judgment involves making estimates concerning the probability of occurrence of future events, actual results could differ from those estimates. The Company and its subsidiaries review estimates and assumptions at least annually.

**2.19 New and revised standards and interpretations issued and not yet adopted**

The new IFRSs issued by the IASB and not yet in force are:

- **IFRS 9 - Financial Instruments** - introduces new requirements for classification, measurement and derecognition of financial assets and liabilities (effective for annual periods beginning on or after January 1, 2018). The Company does not expect significant effects of adopting this standard on the Financial Statements.



- **IFRS 15 - Revenue from Contracts with Customers** - introduces new requirements to recognize revenue from sales of goods and services (effective for annual periods beginning on or after January 1, 2018). The Company does not expect significant effects of adopting this standard on the Financial Statements.
- **IFRS 16 - Leases** - Requires recognition of operating leases in the same formats of finance leases (effective for annual periods beginning on or after January 1, 2019). The Company is evaluating the effects of adopting this standard on the Financial Statements.

## 2.20 Regulations issued by the Central Bank of Brazil (BACEN)

Due to Law 12865, published on October 9, 2013, the Company is subject to regulations issued by the Central Bank of Brazil (BACEN), according to guidelines established by the National Monetary Council (CMN).

In this regard the Company is subject to operating approval by the BACEN, which application was filed in 2014 and the proceedings are in progress, and in the end the regulator may require adjustments in some practices of the Company. Management has made a number of adaptations in order to fully comply with regulations as of BACEN granting its approval, notwithstanding any further requests that the BACEN might require from the Company.

In addition to the individual and consolidated financial statements prepared in accordance with IFRSs and the accounting practices adopted in Brazil, the Company will be subject to disclose, as from the authorization by the regulatory agency, the financial statements prepared in accordance with the set of criteria, procedures and accounting rules embodied in the Chart of Accounts for Institutions of the Brazilian Financial System (COSIF), which differs from some practices currently adopted and whose effects may be different.

Among the differences between the accounting rules, we highlight the standard that addresses goodwill from Business Combination. The BACEN has not approved the Pronouncement CPC 15 (R1) - Business Combinations, equivalent to international standard IFRS 3 - Business Combinations, which determines that goodwill, classified as intangible assets, shall not be amortized and shall be subject to annual impairment test (impairment test set out in CPC 01 (R1) - Impairment of Assets). With respect to the COSIF, the BACEN's Circular Letter No. 3.624/2013 establishes that goodwill shall be amortized according to the projection periods that justified them and be subject to annual impairment test.

Finally, we should mention that the measurement of the differences between the financial statements issued in accordance with Brazilian accounting standards and in accordance with IFRSs and those that will comply with the accounting practices issued and approved by the BACEN depends on the definition of procedures and guidance for the first-time adoption of the accounting rules of the COSIF applicable to payment institutions, recently regulated by the BACEN.

## 3 Consolidated financial statements

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Control is obtained when the Company has the power to control an entity's financial and operating policies to benefit from its activities. In the Company's individual financial statements, the financial information on subsidiaries, joint ventures and associate is accounted for under the equity method.



The profit or loss of the subsidiaries acquired during the year is included in the consolidated statements of profit or loss from the date of acquisition. The balance of profit or loss is attributable to the Company's shareholders and noncontrolling interests, despite of losses. When necessary, the subsidiaries' financial statements are adjusted to conform their accounting policies to those established by the Group. All intragroup transactions, balances, income and expenses are fully eliminated in the consolidated financial statements.

For subsidiaries and investment funds whose quotas are fully held by the Company, the full consolidation concept was applied, intended for investments in subsidiaries and funds and entailing the recognition of all assets, liabilities, income and expenses in the parent, thus requiring the recognition of noncontrolling interests. Changes in ownership interest in investments in subsidiaries that do not result in loss of control are accounted for as capital transactions between shareholders, and any differences between the amount by which noncontrolling interests have been adjusted and the fair value of the amount received or paid is recognized directly in equity attributable to the owners of the parent.

Due to the beginning of activities of FIDC, the Company now consolidates the financial statements of the fund since it believes that the fund was created with the main purpose of concentrating the operation of purchase of receivables derived from payment transactions made by Cielo acquisition system, and all the risks and rewards related to the fund's yield are linked to the ownership interest held by the Company, which is the single owner of the fund's quotas.

The consolidated financial statements include the following direct and indirect subsidiaries, joint ventures, associate and investment fund:

Companies	Interest in the capital (%)		Main activities
	12/31/2016	12/31/2015	
<b>Direct subsidiaries and FIDC:</b>			
Servinet Serviços Ltda. ("Servinet")	99.99	99.99	Provision of maintenance services and contacts with merchants and service providers for acceptance of credit and debit cards.
Cateno Gestão de Contas de Pagamentos S.A. ("Cateno")	70.00	70.00	Provision of services in processing means of payments that involve credit, debit and multiple cards of private and prepaid labels (not including credit card management).
Cielo USA, Inc. ("Cielo USA")	100.00	100.00	Holding ownership interests in other companies as partner or shareholder.
Multidisplay Comércio e Serviços Tecnológicos S.A. ("Multidisplay"), see note 1	91.44	50.10	Provision of services in data transmission to load fixed or mobile phone credits.
Braspag Tecnologia em Pagamento Ltda. ("Braspag")	99.99	99.99	Development and licensing of software for computer, automated transaction processing, IT services for collection and management of accounts payable and receivable using the Internet.
Aliança Pagamentos e Participações Ltda. ("Aliança")	99.99	99.99	Provision of services of contacts developing and maintenance with merchants and holding ownership interests in other companies as partner or shareholder.
Cielo Cayman Island ("Cielo Cayman")	100.00	100.00	Holding ownership interests in other companies as partner or shareholder. Cielo Cayman did not carry out any operational, non-operational, equity or financial activity in the year ended December 31, 2016.
Investment Fund in Nonstandard Credit Rights Cielo ("FIDC"), see note 6	100.00	-	Acquisition of eligible credit rights arising from payment transactions originating from Cielo's acquisition system and other financial assets.



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**Indirect subsidiaries:**

M4Produtos e Serviços S.A. (“M4Produtos”), see note 1	91.44	50.10	Provision of services in data transmission to load fixed or mobile phone, prepaid transportation, and mobile payment.
Merchant e-Solutions, Inc. (“Me-S”)	100.00	100.00	Provision of services related to electronic payments with credit or debit cards.

**Direct joint ventures:**

Companhia Brasileira de Gestão de Serviços. (“Orizon”)	40.95	40.95	Provision of data processing services for healthcare companies, management of back office services for health operators, electronic network interconnection services between health operators and medical and hospital service providers and other health system agents and drugstores.
Paggo Soluções e Meios de Pagamento S.A. (“Paggo”)	50.00	50.00	Provision of services relating to signing up of merchants for acceptance of credit and debit cards through the capture, transmission, data processing and settlement of electronic transactions.

**Indirect joint ventures**

Prevsáude Comercial de Produtos e de Benefícios de Farmácia Ltda. (“Prevsáude”)	40.95	40.95	Provision of medicine benefit services to corporate customers, healthcare plans, public customers, and large laboratories.
Guilher Comércio, Importação, Exportação e Distribuição de Medicamentos e Tecnologia para Saúde Ltda. (“Guilher”)	40.95	40.95	Import, export, distribution, and sale of medicines and pharmaceutical raw materials, products and technology equipment for health.

**Indirect associate:**

Stelo S.A. (“Stelo”)	30.00	30.00	Facilitator for online payments and digital portfolio, both for the physical world and for electronic commerce.
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## 4 Cash and equivalents

	Weighted average rate per year	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Cash and banks:</b>					
Local currency		7,981	4,258	11,694	5,669
Foreign currency		22,782	30,581	553,298	384,697
<b>Short-term investments:</b>					
Debentures subject to repurchase agreements	99.38% of DI	902,090	6,558	1,750,354	837,228
Bank certificates of deposit - CDB	100.81% of DI	195	170	336,709	19,010
Money Market Deposit Account - MMDA	0.25%	-	2,920	-	2,920
Others		-	-	6,901	-
Total		<u>933,048</u>	<u>44,487</u>	<u>2,658,956</u>	<u>1,249,524</u>

The balances in line item “Cash and banks” consist of cash on hand and cash available in bank accounts in Brazil and abroad, derived primarily from deposits made by credit and debit card issuing banks, in the case of the Company, and by card association members, in the case of Me-S, and such amounts are used to settle transactions with merchants.

These short-term investments are highly liquid and their carrying amounts do not differ from their fair values.



## 5 Trade receivables

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Purchase of receivables (a)	1,657,527	10,094,141	9,967,646	10,094,141
Receivables for processed financial transactions (b)	-	-	374,840	461,030
Receivables for interchange fees to merchants (c)	-	-	137,058	149,585
Receivables for merchant commissions (d)	-	-	360,922	292,376
Bank account lock (e)	9,667	6,645	9,667	6,645
Meal and transportation voucher capture and processing (f)	8,985	20,948	8,985	20,948
Receivables for mobile payment services (g)	-	-	111,929	85,502
Challenges of credit card holders - chargeback (h)	32,282	28,175	32,282	28,175
Other receivables	4,964	3,755	10,719	13,503
Total	1,713,425	10,153,664	11,014,048	11,151,905

- (a) The balance refers to purchase of receivables by the Company and by FIDC from merchants, relating to card transactions that will be received from the card-issuing banks within 360 days from the purchase date. As at December 31, 2016, this amount is net of the income from purchase of receivables, to be recognized to the maturity dates of the transactions, totaling R\$48,316 in parent company and R\$362,972 in consolidated (R\$386,722 as at December 31, 2015 in parent company and consolidated), since it is related to the purchase of receivables for credit and installment sales with original maturity after the end of the reporting periods.
- (b) Refer to receivables recognized in subsidiary Me-S. These correspond to amounts due from card association members for processed transactions that were authorized but not yet received by Me-S by the end of the reporting periods. These amounts receivable are usually received on the business day following the transaction capture date. The card associations send to Me-S the amounts due to merchants for processing, net of the interchange fee withheld by the card-issuing banks.
- (c) Refer to interchange fees prepaid by the subsidiary Me-S to merchants during the month. These interchange fees, as well as the commission on services provided by Me-S, are received at the beginning of the month subsequent to the transaction month.
- (d) The balance refers to fees earned by the subsidiary Cateno resulting from payment accounts management services under the Ourocard Payment Arrangement. In general, the commissions resulting from credit card transactions are settled in 28 days and those arising from debit card transactions are settled one business day following the transaction.
- (e) The Company offers to card-issuing banks account lock services upon prior approval from merchants to block any transfer of receivables from such merchants to another bank. For these services, the Company receives a commission, which is paid in the month subsequent to the request of the bank account lock by the issuing banks.
- (f) Receivables from Companhia Brasileira de Soluções e Serviços ("Alelo") arising from the provision of meal and transportation voucher capture and processing services.
- (g) Receivables for electronic payment services provided by subsidiaries M4Produtos and Multidisplay through mobile phones and sale of phone credits with credit and debit cards.
- (h) Refer substantially to receivables for transactions challenged by credit card holders (chargeback).

The aging of trade receivables is as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current	1,681,143	10,125,489	10,981,766	11,123,730
Up to 45 days past-due	32,282	28,175	32,282	28,175
Total	1,713,425	10,153,664	11,014,048	11,151,905

## 6 Investment fund in credit rights

The Investment Fund in Nonstandard Credit Rights Cielo ("FIDC") started its operations on August 5, 2016 in the form of an open-ended condominium, exclusive and for an undeterminate period, governed by CMN Resolution No. 2907/2001, CVM Instructions No. 356/01 and 444/06, and by the terms of the Regulation and all other applicable legal and regulatory provisions.



The purpose of the fund is to provide quotaholders with an appreciation of the quotas through the investment of their funds mainly in credit rights arising from payment transactions made by end users using payment instruments, for purchase of goods, products and services in merchants, on Cielo's acquisition system, complying with the other applicable rules and standards.

The fund shall keep after 90 days from the beginning of activities at least 50% of its equity in the purchase of eligible credit rights.

The credit rights are measured at the purchase price and calculated based on the internal rate of return of the contracts, under the pro rata temporis criterion. The internal rate is calculated based on the purchase price, amount on maturity and term for receiving the credit rights.

The administration, management and custody of the fund is made by Oliveira Trust Distribuidora de Títulos e Valores Mobiliários S.A.

The equity structure of FIDC as at December 31, 2016 comprises 6,809,517 quotas owned by Cielo, amounting to R\$1,220.42 Brazilian reais each, totaling R\$8,310,458.

The fund's statement of financial position and statement of profit or loss are as follows:

	12/31/2016		12/31/2016
<b>Assets</b>		<b>Liabilities</b>	
Cash and cash equivalents	508	Trade payables	119
Trade receivables	8,310,119	Payables to related parties	50
		Equity	8,310,458
Total	8,310,627	Total	8,310,627

12/31/2016					
	Revenue from Purchase of receivables	Gross profit	Profit before finance income	Profit before income tax and social contribution	Profit for the year
FIDC	592.455	592.455	591.589	591.622	591.622

## 7 Income tax and social contribution

### Deferred income tax and social contribution

Deferred income tax and social contribution arise from temporary differences caused mainly by temporarily non-deductible provisions, and are classified in noncurrent assets and noncurrent liabilities.

Deferred income tax and social contribution reflect future tax effects attributable to temporary differences between the tax base of assets and liabilities and the related carrying amount. Reported amounts are reviewed monthly.





**a. Breakdown of deferred income tax and social contribution - Assets**

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Temporary differences:</b>				
Provision for tax, labor and civil risks	549,704	470,254	557,700	476,164
Accrual for sundry expenses	262,008	132,819	359,899	221,632
Allowance for losses on POS equipment and doubtful debts	59,008	47,096	59,008	47,097
Total	870,720	650,169	976,607	744,893

**b. Breakdown of deferred income tax - Liabilities recognized in foreign companies**

	Consolidated	
	12/31/2016	12/31/2015
<b>Temporary differences:</b>		
Fair value of Me-S's intangible assets, acquired in 2012	207,406	288,752
Other temporary differences	16,923	14,926
Total	224,329	303,678

Deferred income and social contribution tax assets as at December 31, 2016, as shown in note 7 (a), were recognized on temporary differences. According to Management's best estimate, tax credits recognized on the accrual for sundry expenses, allowance for losses on POS equipment and doubtful debts, in the amount of R\$870,720 (R\$976,607 - consolidated) will be realized mainly during 2017. The portion of tax credits on the provision for risks, in the amount of R\$549,704 (R\$557,700 - consolidated), will be realized upon the final outcome of each lawsuit, partially estimated in up to 5 years, except for 46% of the provision for labor risks which are estimated to be realized in up to 10 years, according to the development of the lawsuit described in note 16.

**Current income tax and social contribution**

The effective rate of income tax and social contribution for the years ended December 31, 2016 and 2015 is as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Profit before income tax and social contribution	5,562,767	5,042,937	6,020,776	5,434,831
Statutory rates - %	34	34	34	34
Income tax and social contribution at statutory rates	(1,891,340)	(1,714,599)	(2,047,064)	(1,847,843)
Tax benefit of interest on capital	165,172	86,190	165,172	86,190
Tax benefit of R&D	23,088	14,331	23,088	14,331
Share of profit of investees	130,204	116,564	4,761	1,145
Effect on permanent differences, net	15,559	(33,987)	16,763	(37,221)
Income tax and social contribution	(1,557,317)	(1,531,501)	(1,837,280)	(1,783,398)
Current	(1,777,868)	(1,439,821)	(2,100,867)	(1,813,139)
Deferred	220,551	(91,680)	263,587	29,741



Incentives to Cultural and Artistic (“Lei Rouanet”), Sports and Pronas activities and to the Child and Adolescent Rights Fund are recognized in line item “income tax expense - current”. Tax incentives recognized as income tax expense - current, in Parent Company and Consolidated, totaled R\$44,632 for the year ended December 31, 2016 (R\$32,507 for the year ended December 31, 2015).

## 8 Investments

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Subsidiaries	9,658,276	9,801,843	-	-
Joint ventures	94,212	76,119	94,212	69,119
Associate	-	-	-	10,847
Goodwill on acquisition of investments (a)	56,799	56,799	10,143	25,142
Total	9,809,287	9,934,761	104,355	105,108

(a) The goodwill arising from investments in subsidiaries, associate and joint ventures are included in the carrying amount of the investment in the individual financial statements (see note 10). In the consolidated financial statements, the goodwill arising from the acquisition of subsidiaries is recognized in intangible assets.

The main information on direct and indirect subsidiaries, joint ventures and associate relating to the investment amounts and the share of profit (loss) of investees recorded in the individual and consolidated financial statements is shown in the table below:



**Cielo S.A.**  
*Individual and consolidated financial statements for the year ended December 31, 2016 and independent auditor's report*

	12/31/2016				12/31/2015					
	Ownership interest - %	Assets	Liabilities	Equity	Investments	Ownership interest - %	Assets	Liabilities	Equity	Investments
<b>Subsidiaries:</b>										
Servinet	99,99	82,576	56,581	25,995	25,995	99,99	68,288	49,225	19,063	19,063
Multidisplay	91,44	107,620	35,283	72,337	67,552	50,10	79,520	33,340	46,180	31,338
Braspag	99,99	44,539	9,378	35,161	35,161	99,99	37,112	6,892	30,220	30,220
Cielo USA	100,00	2,519,176	1,520,444	998,732	998,732	100,00	3,096,353	1,860,357	1,235,996	1,235,996
Cateno	70,00	12,450,492	267,811	12,182,681	8,527,875	70,00	12,437,546	352,716	12,084,830	8,459,381
Aliança	99,99	3,702	741	2,961	2,961	99,99	25,845	-	25,845	25,845
<b>Total</b>		<b>15,208,105</b>	<b>1,890,238</b>	<b>13,317,867</b>	<b>9,658,276</b>		<b>15,744,664</b>	<b>2,302,530</b>	<b>13,442,134</b>	<b>9,801,843</b>
<b>Joint ventures:</b>										
Orizon (**)	40,95	264,951	20,616	244,335	94,175	40,95	219,046	18,962	200,084	76,055
Paggo	50,00	280	208	72	37	50,00	336	209	127	64
<b>Total</b>		<b>265,231</b>	<b>20,824</b>	<b>244,407</b>	<b>94,212</b>		<b>219,382</b>	<b>19,171</b>	<b>200,211</b>	<b>76,119</b>
<b>Associate:</b>										
Stelo	30,00	77,910	53,478	24,432	-	30,00	51,747	15,595	36,152	10,846

(\*) The investment held by Cielo includes adjustment in the equity of Multidisplay due to the special goodwill reserve generated in the corporate restructuring process in which Servinnet was merged into its then subsidiary Multidisplay, in the amount of R\$16,484.

(\*\*) The amount of R\$5,880 is not reflected in the investment because it refers to the unrealized gain on capital contribution with goodwill initially reflected in CBGS Ltda. and transferred to the indirect subsidiary CBGS as a result of the merger. In November 2009, CBGS was merged into its then subsidiary Orizon.

	12/31/2016						12/31/2015					
	Net revenue	Gross profit (loss)	Operating profit (loss) before finance income (costs)	Profit (loss) before income tax and social contribution	Share of profit (loss) of investees for the year	Net revenue	Gross profit (loss)	Operating profit (loss) before finance income (costs)	Profit (loss) before income tax and social contribution	Profit (loss) for the year	Share of profit (loss) of investees for the year	
<b>Subsidiaries:</b>												
Servinet	145,028	141,554	8,057	10,657	6,932	136,104	133,593	7,561	9,810	6,535	6,534	
Multidisplay	655,142	33,780	27,214	26,225	18,482	456,996	21,201	15,106	12,987	13,773	6,900	
Braspag	40,274	20,149	919	2,787	4,941	37,547	16,196	5,039	5,945	3,395	3,394	
Cielo USA Inc.	-	(93,009)	(36,152)	(90,563)	(34,556)	-	(106,330)	1,794	(46,167)	12,013	12,013	
Cateno	2,487,091	848,740	731,137	859,298	567,124	2,056,935	668,383	601,765	672,314	433,747	303,623	
Aliança	2,560	2,579	(34,948)	(34,881)	(34,924)	-	-	(6,885)	(6,885)	(6,885)	(6,884)	
<b>Total</b>	<b>3,330,095</b>	<b>953,793</b>	<b>696,227</b>	<b>773,523</b>	<b>535,907</b>	<b>2,667,582</b>	<b>733,043</b>	<b>624,380</b>	<b>648,004</b>	<b>462,578</b>	<b>325,580</b>	
<b>Joint ventures:</b>												
Orizon	145,572	63,604	39,260	55,952	18,120	140,266	61,506	40,485	53,196	42,199	17,281	
Paggo	-	-	(56)	(56)	(27)	-	-	(54)	(54)	(54)	(27)	
<b>Total</b>	<b>145,572</b>	<b>63,604</b>	<b>39,204</b>	<b>55,896</b>	<b>18,093</b>	<b>140,266</b>	<b>61,506</b>	<b>40,431</b>	<b>53,142</b>	<b>42,145</b>	<b>17,254</b>	
<b>Associate:</b>												
Stelo	83	(10,070)	(50,123)	(51,617)	(11,089)	5	(10,413)	(35,341)	(34,769)	(22,951)	(6,886)	





The consolidation of the financial statements, for direct subsidiaries Multidisplay, Braspag and Cielo USA, as well as for indirect subsidiaries M4Produtos and Me-S, was based on the financial information as at November 30, 2016 to calculate the investments as at December 31, 2016. Accordingly, the share of profit (loss) of investees refers to the year ended November 30, 2016.

The Company has investments in foreign subsidiaries whose financial statements were originally prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). No adjustments are made to the financial statements of foreign subsidiaries, given that there are no significant differences in relation to Brazilian accounting practices.

As at December 31, 2016 and 2015, the goodwill arising on the acquisition of investments in the individual statement of financial position and the goodwill arising on the acquisition of investments in joint ventures and associate in the consolidated statement of financial position are recognized in line item "Investments", as shown below:

	<u>Parent Company</u>		<u>Consolidated</u>	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Multidisplay	20,690	20,690	-	-
Braspag	25,966	25,966	-	-
Orizon	10,143	10,143	10,143	10,143
Stelo (*)	-	-	-	14,999
<b>Total</b>	<u>56,799</u>	<u>56,799</u>	<u>10,143</u>	<u>25,142</u>

(\*) In 2016, the Company recognized a provision for impairment related to the goodwill established during the initial investment in Stelo because it is not possible to predict the beginning of cash generation in this operation.

The details of the nature of the goodwill arising on the acquisition of investments recognized in line item "Investments" are disclosed in note 10 (a) - Goodwill on acquisition of investments.

Changes in investments for the years ended December 31, 2016 and 2015 are as follows:

	<u>Parent Company</u>	<u>Consolidated</u>
Balance at December 31, 2014	1,025,856	69,010
Capital increase - Cateno	8,390,200	-
Capital increase - Aliança	32,730	-
Capital increase - Stelo	-	17,731
Goodwill on acquisition of Stelo	-	14,999
Exchange differences on foreign investment	394,934	-
Dividends received:		
Multidisplay	(7,350)	-
Servinet	(10,000)	-
Cateno	(234,443)	-
Share of profit of investees	342,834	3,368
<b>Balance at December 31, 2015</b>	<u>9,934,761</u>	<u>105,108</u>
Advances for future capital increase	12,040	9,240
Acquisition of additional interest in subsidiary M4U	100,133	-
Goodwill on capital transactions between shareholders arising from the acquisition of additional shares in subsidiary M4U	(82,284)	-
Provision for loss on investment (see note 10)	-	(23,997)
Exchange differences on foreign investment	(202,708)	-
Dividends received:		
Multidisplay	(117)	-
Cateno	(335,492)	-
Share of profit of investees	382,954	14,004
<b>Balance at December 31, 2016</b>	<u>9,809,287</u>	<u>104,355</u>



## 9 Property and equipment

<b>Parent Company</b>					
<hr/>					
<b>12/31/2016</b>					
<hr/>					
	<b>Annual depreciation rate- %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>	<b>Net</b>
POS equipment	33	1,592,619	(1,117,668)	474,951	589,838
Data processing equipment	20	149,760	(92,663)	57,097	72,480
Machinery and equipment	10 - 20	26,924	(21,262)	5,662	6,856
Facilities	10	47,260	(6,194)	41,066	43,015
Furniture and fixtures	10	11,844	(4,327)	7,517	7,558
Vehicles	20	728	(620)	108	457
		<hr/>	<hr/>	<hr/>	<hr/>
Total		1,829,135	(1,242,734)	586,401	720,204
<hr/>					
<b>Consolidated</b>					
<hr/>					
<b>12/31/2016</b>					
<hr/>					
	<b>Annual depreciation rate- %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>	<b>Net</b>

Changes in property and equipment for the years ended December 31, 2016 and 2015 are as follows:

<b>Parent Company</b>					
<hr/>					
	<b>12/31/2015</b>	<b>Additions</b>	<b>Disposals and estimated losses</b>	<b>Depreciation</b>	<b>12/31/2016</b>
POS equipment	589,838	277,559	(49,409)	(343,037)	474,951
Data processing equipment	72,480	7,939	-	(23,322)	57,097
Machinery and equipment	6,856	385	-	(1,579)	5,662
Facilities	43,015	2,615	-	(4,564)	41,066
Furniture and fixtures	7,558	975	-	(1,016)	7,517
Vehicles	457	-	(187)	(162)	108
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	720,204	289,473	(49,596)	(373,680)	586,401
<hr/>					
	<b>12/31/2014</b>	<b>Additions</b>	<b>Disposals and estimated losses</b>	<b>Depreciation</b>	<b>12/31/2015</b>
Total	701,274	446,708	(43,525)	(384,253)	720,204



<b>Consolidated</b>						
	<b>12/31/2015</b>	<b>Additions</b>	<b>Disposals and estimated losses</b>	<b>Depreciation</b>	<b>Exchange differences</b>	<b>12/31/2016</b>
POS equipment	590,593	277,686	(49,764)	(343,192)	(45)	475,278
Data processing equipment	86,669	17,360	(1,052)	(28,771)	(2,349)	71,857
Machinery and equipment	9,522	14,073	(53)	(4,528)	(476)	18,538
Facilities	54,949	14,435	(25)	(6,508)	-	62,851
Furniture and fixtures	9,255	3,645	(10)	(1,429)	(47)	11,414
Vehicles	529	-	(186)	(182)	-	161
<b>Total</b>	<b>751,517</b>	<b>327,199</b>	<b>(51,090)</b>	<b>(384,610)</b>	<b>(2,917)</b>	<b>640,099</b>
<b>Disposals and estimated losses</b>						
	<b>12/31/2014</b>	<b>Additions</b>	<b>Disposals and estimated losses</b>	<b>Depreciation</b>	<b>Exchange differences</b>	<b>12/31/2015</b>
<b>Total</b>	<b>723,915</b>	<b>458,183</b>	<b>(43,711)</b>	<b>(391,555)</b>	<b>4,685</b>	<b>751,517</b>

As at December 31, 2016 and 2015, an allowance for impairment of POS equipment of R\$39,826 and R\$25,719, respectively, is recorded. Additionally, as at those dates, the Company had borrowing agreements with the National Bank for Economic and Social Development (“BNDES” - Finame) to acquire new POS equipment and does not have finance leases payable.

## 10 Intangible assets

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Goodwill on acquisition of investments	-	-	1,579,097	1,884,977
Other intangible assets	261,431	151,174	11,863,225	12,405,521
<b>Total</b>	<b>261,431</b>	<b>151,174</b>	<b>13,442,322</b>	<b>14,290,498</b>

### a. Goodwill on acquisition of investments

As at December 31, 2016, the goodwill on acquisition of investments in subsidiaries is recognized in line item “Intangible assets” in the consolidated statement of financial position, broken down as follows:

	<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Multidisplay	30,581	31,348
Braspag	34,241	39,343
Me-S	1,514,275	1,814,286
<b>Total</b>	<b>1,579,097</b>	<b>1,884,977</b>



### **Acquisition of control - Multidisplay**

In August 2010, the Company acquired through its direct subsidiary Servrede, 50.1% of the shares representing the capital of Multidisplay and its wholly-owned subsidiary M4Produtos, which collectively are referred to as M4U, for R\$50,650, generating initial goodwill of R\$31,348.

In the corporate restructuring process carried out in 2012, Servrede was merged into its then subsidiary Multidisplay, the tax benefit on goodwill of R\$10,658 was merged into Multidisplay and the remaining goodwill of R\$20,690 was re-established in the Company, as provided for in CVM Instructions 319/99 and 349/01.

### **Acquisition of control - Braspag**

In May 2011, the Company acquired, through its then direct subsidiary CieloPar, 100% of the shares of Braspag, for R\$40,000. The amount of the investment recorded until then by CieloPar included goodwill on acquisition of shares of R\$39,343.

In the restructuring process carried out in 2012, CieloPar was merged into its then subsidiary Braspag. The tax benefit on goodwill of R\$13,377 was merged into Braspag and the remaining goodwill of R\$25,966 was re-established in the Company as provided for in CVM Instructions 319/99 and 349/01.

### **Acquisition of control - Me-S**

In August 2012, the Company completed the acquisition, through its direct subsidiary Cielo USA, of 100% of the shares of Me-S.

Cielo USA allocated the fair value of Me-S's assets acquired and liabilities assumed based on a purchase price allocation ("PPA") report prepared by an independent specialized firm; accordingly, the net assets acquired recorded in the books for R\$180,098 on August 31, 2012 were appraised at R\$627,581 at fair value.

The amount of the investment recorded by Cielo USA includes the initial goodwill on the acquisition of shares of R\$818,875, generated by the difference between the total fair value of R\$ 627,581 and the purchase price of R\$1,365,256, plus the balance of cash and cash equivalents acquired of R\$81,200. The variation of the consolidated goodwill balance for the year is due to the dollar appreciation and reclassification of intangible asset balances, net of taxes, allocated on the acquisition of Me-S to line item "Goodwill" in Cielo USA.

### **Health project ("Orizon")**

The CBGS group's corporate reorganization took place in 2008 with the subsequent purchase of a 40.95% share of its capital by Cielo through Orizon, whereby goodwill was generated and initially recognized in the Company in the amount of R\$26,269, which was subsequently reduced due to the recognition of a provision for impairment of R\$16,126 due to the absence of goodwill's future profitability prospects.

### **Acquisition of ownership interests - Stelo**

As disclosed on June 15, 2015, the Company, through its subsidiary Aliança, and Cia Brasileira de Soluções e Serviços ("CBSS"), company controlled by Banco Bradesco S.A. and Banco do Brasil S.A., signed the final documents after fulfillment of precedent conditions, for subscription of ownership interest in Stelo.





The amount of the investment recorded by Aliança in accounting books includes initial goodwill on acquisition of shares of R\$14,999 generated by the difference between the percentage of interest in Stelo's total equity and the purchase price of R\$32,730. In 2016, a provision for impairment related to the goodwill formed during the initial investment in Stelo was recognized due to the lack of visibility regarding the beginning of cash generation in this operation.

Changes in goodwill in the years ended December 31, 2016 and 2015 are as follows:

	<b>Consolidated</b>
Balance at December 31, 2014	1,112,623
Exchange differences	580,417
Reclassification of goodwill of Me-S	191,937
Balance at December 31, 2015	1,884,977
Exchange differences	(300,011)
Reclassification of tax benefit on goodwill	(5,869)
Balance at December 31, 2016	1,579,097

There were no changes in the Parent Company goodwill balance in the years presented.

**b. Other intangible assets**

The breakdown of other intangible assets is as shown below:

<b>Parent Company</b>					
<b>12/31/2016</b>					
<b>12/31/2015</b>					
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Software (a)	20	411,645	(201,701)	209,944	140,056
Project development (b)	20	70,194	(20,316)	49,878	8,075
Relationship with customers (c)	10	953	(731)	222	270
Non-compete agreement (d)	7.5	10,284	(8,897)	1,387	2,773
Service agreements (e)	20	11,994	(11,994)	-	-
Total		505,070	(243,639)	261,431	151,174
<b>Consolidated</b>					
<b>12/31/2016</b>					
<b>12/31/2015</b>					
	Annual amortization rate - %	Cost	Accumulated amortization	Net	Net
Software (a)	6.66 - 20	882,190	(397,477)	484,713	503,946
Project development (b)	20	352,102	(219,900)	132,202	113,614
Relationship with customers (c)	4 - 20	513,649	(195,093)	318,556	440,756
Non-compete agreement (d)	7.5 - 50	140,481	(90,849)	49,632	74,923
Service agreements (e)	8 - 20	32,097	(18,797)	13,300	21,726
Trademarks (f)	10	3,261	(3,261)	-	-
Right to use Ourocard Payment Arrangement (g)	3.33	11,572,000	(707,178)	10,864,822	11,250,556
Total		13,495,780	(1,632,555)	11,863,225	12,405,521

- (a) Software - refers to software licenses acquired from third parties and used to provide services relating to information processing and business transactions with customers. Additionally, in 2012, when 100% of Me-S's capital stock was acquired, the fair value adjustment of the software platform was recognized in Cielo USA in the amount of R\$223,300 (equivalent to US\$110,000). The independent appraisal firm engaged to issue the appraisal report measured the software platform's fair value using the average of the values obtained from applying the Relief-from-Royalty (at a 16% royalty fee) and Cost Approach - Third-party Cost Estimates methodologies. The useful life defined for this software platform is 12 years.



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- (b) Project development - refers to expenses on development of new products or services designed to increase the Company's and its subsidiaries' invoicing and revenues.

There are other intangibles generated from the allocation of the price paid for the acquisition of control of M4U, Braspag and Me-S, in August 2010, May 2011 and August 2012, respectively. These intangibles were recorded based on appraisal reports prepared as of those dates by independent appraisers, and the criteria used to measure the value of these intangible assets are described as follows:

- (c) Relationship with customers
- **Braspag** - The main component of intangible assets is the customers' portfolio, which was evaluated using the "Income Approach" methodology, considering the balance of active customers and the respective churn rate, using estimated useful life of 120 months.
  - **Me-S** - Me-S customers' portfolio was classified in three main groups: "e-commerce", "bank customer" and "B2B/Other". Each portfolio was evaluated separately using the "Excess Earnings" methodology, considering their specific and individual characteristics. As discount rate, 10% per year was used for "e-commerce" and "bank customer" portfolios, and 11% for "B2B/Other". The estimated useful life was based on the years in which each portfolio reaches approximately 80% to 90% of the accumulated amount of the discounted cash flow. An interval between the lowest and the highest values obtained was adopted.
- (d) Non-compete agreement:
- **Multidisplay and M4Produtos** - Non-compete agreement ("with and without") value was calculated using the "Income Approach" methodology, with discount rate of 17.5% per year, perpetuity of 4% per year and estimated useful life of 89 months.
  - **Me-S** - Me-S entered into an agreement with Synovus Financial Corporation, under which no competition shall exist in relation to the portfolio acquired from Columbus Bank and Trust Company ("CB&T") and any new customers acquired through CB&T as a result of the Recommendation Agreement. The fair value of this agreement was estimated using the "With and Without" methodology, while its useful life was defined to be the expiration date of the agreement.
- (e) Service agreements:
- **Multidisplay and M4Produtos** - the four service agreements with telecommunication operators were measured based on the discounted cash flow of each agreement, by using a discount rate of 16.5% per year, during the residual life of each agreement, of approximately 53 months.
  - **Me-S** - when Me-S acquired CB&T's customer portfolio, it entered into an agreement under which it would have preference in referring new customers. The fair value of this agreement was estimated based on the "Excess Earnings" methodology, and its useful life was defined to be the expiration date of the agreement, that is, 2020.
- (f) Trademarks - valued under the "Relief-from-Royalty" methodology, assuming a 0.3% royalty fee, based on parameters obtained from the "Royalty Source Intellectual Property Database", and a discount rate of 10%.
- (g) Right to use Ourocard Payment Arrangement:
- **Cateno** - Under the scope of the association agreement between the Company and BB Elo Cartões, a wholly-owned subsidiary of Banco do Brasil, Cateno was granted exploitation rights over post-paid payment accounts management activities in the Ourocard Payment Arrangement, exploitation of management activities over debit payment functionalities in the Ourocard Payment Arrangement, and participation in the Ourocard Payment Arrangement as a Payment Institution.

By means of an Economic and Financial Appraisal Report issued by an independent audit firm and prepared based on a Future Profitability method using a discounted cash flow, the exploitation rights under the above-described Ourocard Payment Arrangement were valued at R\$11,572 million, with a 30-year defined useful life. The intangible assets are amortized under the straight-line method at a rate of 3.33% per year. The useful life and amortization method are reviewed annually.

Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	<b>Parent Company</b>			
	<b>12/31/2015</b>	<b>Additions</b>	<b>Amortizations</b>	<b>12/31/2016</b>
Software	140,056	115,643	(45,755)	209,944
Project development	8,075	45,141	(3,338)	49,878
Relationship with customers	270	-	(48)	222
Non-compete agreement	2,773	-	(1,386)	1,387
<b>Total</b>	<b>151,174</b>	<b>160,784</b>	<b>(50,527)</b>	<b>261,431</b>
	<b>12/31/2014</b>	<b>Additions</b>	<b>Amortizations</b>	<b>12/31/2015</b>
<b>Total</b>	<b>126,672</b>	<b>63,817</b>	<b>(39,315)</b>	<b>151,174</b>



Consolidate								
	12/31/2015	Additions	Granting of rights	Disposals	Transfers (a)	Amortizations	Exchange differences	12/31/2016
Software	503,946	140,274	-	(2,311)	-	(99,770)	(57,426)	484,713
Project development	113,614	59,045	-	-	-	(25,023)	(15,434)	132,202
Relationship with customers	440,756	-	-	-	-	(52,713)	(69,487)	318,556
Non-compete agreement	74,923	-	-	-	-	(15,821)	(9,470)	49,632
Service agreements	21,726	200	-	-	-	(2,012)	(6,614)	13,300
Right to use Ourocard Payment Arrangement	11,250,556	-	-	-	-	(385,734)	-	10,864,822
<b>Total</b>	<b>12,405,521</b>	<b>199,519</b>	<b>-</b>	<b>(2,311)</b>	<b>-</b>	<b>(581,073)</b>	<b>(158,431)</b>	<b>11,863,225</b>
	<b>12/31/2014</b>	<b>Additions</b>	<b>Granting of rights</b>	<b>Disposals</b>	<b>Transfers (a)</b>	<b>Amortizations</b>	<b>Exchange differences</b>	<b>12/31/2015</b>
<b>Total</b>	<b>1,206,992</b>	<b>102,619</b>	<b>11,572,000</b>	<b>(2,081)</b>	<b>(301,998)</b>	<b>(510,272)</b>	<b>338,261</b>	<b>12,405,521</b>

(a) On September 30, 2015, other intangible assets balance was transferred to goodwill, related to the acquisition of Me-S and recorded in subsidiary Cielo USA.

Expenses on depreciation of property and equipment and amortization of intangible assets were recognized in "Cost of services provided" and "General and administrative expenses" in the statement of profit or loss.

## 11 Prepayment of receivables from card-issuing banks

The Company receives in advance receivables from card-issuing banks for transactions made by cardholders, which will be transferred to merchants at the agreed settlement date. These prepayments have an average collection period of approximately seven business days and the weighted average rate of financial charges as at December 31, 2016 is 101.96% of the DI - Interbank Deposit rate (101.99% of the DI as at December 31, 2015).

The amounts due by credit cardholders through card-issuing banks and the amounts to be transferred to merchants are recorded in memorandum accounts.

In Parent Company and Consolidated, the balances of prepayment of receivables with card-issuing banks are R\$574,604 as at December 31, 2016 and R\$1,269,190 as at December 31, 2015.

## 12 Payables to merchants

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Payables to merchants	59,671,944	58,685,347	59,671,944	58,685,347
Receivables from card-issuing banks	(58,474,966)	(57,793,449)	(58,474,966)	(57,793,449)
Transactions pending transfer (a)	1,196,978	891,898	1,196,978	891,898
Payables to merchants (b)	-	-	589,918	491,684
Merchant deposits (c)	-	-	137,359	119,672
<b>Total</b>	<b>1,196,978</b>	<b>891,898</b>	<b>1,924,255</b>	<b>1,503,254</b>

(a) Transactions pending transfer - Transactions pending transfer refer to the difference between the amounts received from card-issuing banks relating to transactions made by cardholders and the amounts to be transferred to merchants. In general, the settlement term of credit card issuers for the Company is 28 days, while the Company's average



settlement term for merchants is 30 days. Therefore, these balances payable as at December 31, 2016 and December 31, 2015 refer to a float of approximately two days.

- (b) Payables to merchants - Represented by amounts due to merchants by the subsidiary Me-S relating to transactions captured and processed until the end of the reporting period. Such amounts are settled on the business day following the date on which transactions are captured.
- (c) Merchant deposits - The subsidiary Me-S requires deposits from customers in order to protect against the potential risk of complaints from card holders due to fraud on the transaction or bankruptcy of the merchant.

In addition to the provision of services consisting of the transfer of credit and debit card transaction amounts between the card-issuing banks and the merchants, the Company also guarantees accredited merchants that they will receive the amounts of transactions paid using credit cards. As described in note 28(c), the Company adopts a strategy to mitigate card-issuing banks' credit risk in order to protect against the risk of default of these financial institutions. Based on the immaterial amount of the Company's history of losses due to default of card-issuing banks and the current credit risk of these financial institutions, the Company estimates that the fair value of the guarantees provided to merchants is not material and, therefore, is not recognized as a liability.

## 13 Borrowings

	Interest rate per year	Parent Company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
		FINAME (a)	8.31%	268,734	384,431
Long-term financing - "Ten-year bonds" (b)	3.75%	1,531,251	1,835,003	2,844,289	3,406,608
Private debentures (c)	100% to 111% of DI	3,502,012	3,506,434	3,502,012	3,506,434
Public debentures (d)	105.8% of DI	3,152,500	4,729,805	3,152,500	4,729,805
R&D financing (e)	4.0%	58,656	58,663	58,656	58,663
Borrowing in foreign currency - "operation 4131" (f)	1.78% to 1.88%	964,918	1,213,552	964,918	1,213,552
Total		<u>9,478,071</u>	<u>11,727,888</u>	<u>10,791,109</u>	<u>13,299,493</u>
Current		2,920,324	3,290,353	2,921,002	3,291,228
Noncurrent		<u>6,557,747</u>	<u>8,437,535</u>	<u>7,870,107</u>	<u>10,008,265</u>
Total		<u>9,478,071</u>	<u>11,727,888</u>	<u>10,791,109</u>	<u>13,299,493</u>

### (a) FINAME

The weighted average rate of the financial charges is 8.31% per year as at December 31, 2016 (6.43% per year as at December 31, 2015). The Company is the beneficiary of a credit facility with BNDES relating to FINAME onlending transactions to finance the purchase of new machinery and equipment manufactured in Brazil. Such onlending occurs through the extension of credit to the Company, generating rights to receipt by the accredited financial institution as a financial agent that contracts such financing transactions with the Company.

The contracts are guaranteed by the transfer of fiduciary ownership of property purchased through FINAME.

### (b) Long-term financing - Ten-year bonds

In November 2012, the Company and its subsidiary Cielo USA completed a financial transaction whereby bonds were issued in the total amount of US\$875 million, of which US\$470 million were issued by the Company and US\$405 million were issued by the subsidiary Cielo USA. The amount raised by Cielo USA was used to pay the acquisition of control of Me-S. The proceeds raised by the Company were used to increase its working capital. The financing obtained is subject to an interest rate of 3.75% per year. Interest is paid on a semiannual basis and principal will be paid in November 2022.

Costs directly associated with the issuance of these bonds (banks, auditors and attorney's fees) were recognized in liabilities and are being allocated to profit or loss over the term of the agreement, based on the amortized cost method.



There are no covenants imposing financial restrictions related to the financial transaction of issuance of bonds.

**(c) Private debentures**

On February 27, 2015, the Company conducted the first, second and third single series, simple, unsecured, nonconvertible debenture private placement issues. The three issuances totaled R\$3,459,449 with maturity date on December 30, 2023. The private debentures' yield includes interest based on the cumulative percentage change between 100.00% and 111.00% of the average daily interest rate of the DI - Interbank Deposits, as applicable, as shown in the table below:

	<b>Principal</b>	<b>Remuneration</b>
1st issuance	2,359,449	111% of the DI
2nd issuance	700,000	100% of the DI until 3/31/2015 and 111% of the DI after 3/31/2015
3rd issuance	400,000	100% of the DI from the payment date to the day of removal from office of the "Transition Committee", or until the end of the nine-year period counted from the base date to be defined in the amendment to the Deed. In case of any of the events, interest will be based on 111% of the DI.

Interest will be paid on a semiannual basis as of the issuance date, except for the last accrual period that will be shorter as it will start on August 27, 2023, and will end with payment on the maturity date together with the principal amount. Exceptionally on March 27, 2015, the principal amount was partially paid in the amount of R\$122,324 related to the 1st issuance of private debentures.

There are no covenants imposing financial restrictions related to the financial transaction of issuance of Private Debentures.

**(d) Public Debentures**

On April 13, 2015, the Company conducted the fourth issuance of simple, unsecured debentures in a single series, not convertible into shares and for public distribution pursuant to the terms of CVM Instruction 400/03. The issuance totaled R\$4,600,000 with maturity date on April 13, 2018. The remuneration of the Public Debentures includes interest based on the cumulative percentage change of 105.8% of the average daily interest rate of the DI - Interbank Deposits. The principal amount will be amortized in three equal and annual installments, in April of each year, and the interest will be paid on a semiannual basis, in April and October of each year.

The amount of R\$4,600,000 was fully used for early redemption of the Promissory Notes issued on December 29, 2014.

Public Debentures have covenants that require the Company to comply with a Net Debt/Adjusted Consolidated EBITDA ratio equal to or lower than 3, measured on an annual basis.

**(e) R&D Financing**

On December 9, 2014, Cielo entered into a financing agreement with Funds for Studies and Projects - FINEP, a government-owned Brazilian company of fostering science, technology and innovation in companies, totaling R\$159,769, and the first part of the funds amounting to R\$59,115, of which R\$58,553 net of inspection and oversight expenses, was released on June 16, 2015. The financing was raised with interest of 4.00% per year, and principal balance will start to be paid after 36 months in 85 successive monthly installments after the mentioned grace period. Interest is paid beginning as of receipt of first release. The Company has financial investments, recognized at fair value through profit or loss in noncurrent assets, remunerated at 101.00% of the Interbank Deposit (DI) rate in the amount of R\$ 75,481, pledged as collateral for the borrowing from FINEP.

There are no covenants imposing financial restrictions in relation to the financing obtained from FINEP.

**(f) Borrowing in foreign currency - "operation 4.131"**

On June 19, 2015, the Company contracted borrowing of US\$204,625 equivalent to R\$630,000 which includes interest based on the cumulative percentage change of 100.00% of Libor plus spread of 0.73% per year. Additionally, on July 31, 2015, the Company contracted borrowing of US\$109,016 equivalent to R\$370,000 with interest based on the cumulative percentage change of 100.00% of Libor plus spread of 1% per year, both with Bank of Tokio Mitsubishi UFJ, Ltd. ("BTMU") and maturing on December 19, 2016. The Company also contracted derivative financial instruments (Swaps) for the specific purpose of hedging such borrowings against fluctuations in foreign exchange rate and interest rate, and the final monthly remuneration, considering all borrowing costs, was equivalent to 99.4% of the daily average interest rate of the DI - Interbank Deposits. Interest on borrowings was paid on a monthly basis from the contracting of the borrowings, jointly with partial settlement of the financial instrument. Both



financial instruments, borrowings in foreign currency and derivatives, remained effective throughout the period and were settled on December 19, 2016.

On December 22, 2016, a new transaction with BTMU in the amount of US\$ 297,327 equivalent to R\$ 1,000,000 was contracted, including fixed interest of 1.78% per year for the period from 12/22/2016 to 03/22/2017 and 1.88% per year for the period from 03/22/2017 until contract maturity on 06/22/2017. In addition, the Company contracted a swap with the purpose of hedging such borrowing against fluctuations in foreign exchange rate and interest rate, and short position (bank's remuneration), considering all transactions costs, is equivalent to 101.4% of the daily average interest rate of the DI (Interbank Deposits). Interest on borrowings and the contracted financial instrument will be paid on 03/22/2017 and 06/22/2017, the latter together with the principal balance of the borrowing.

The borrowings from Bank of Tokyo-Mitsubishi UFJ, Ltd have covenants that require the Company to comply with a Net Debt/ Adjusted Consolidated EBITDA ratio equal to or lower than 3, measured on an annual basis.

The Company complied with the financial ratio related to the covenants of its borrowings described above.

Changes in borrowings for the years ended December 31, 2016 and 2015 are as follows:

	<b>Parent Company</b>	<b>Consolidated</b>
Balance at December 31, 2014	6,268,518	7,339,742
New borrowings	9,293,027	9,293,027
Payment of principal	(4,963,308)	(4,963,308)
Exchange differences (principal and interest)	815,349	1,319,448
Mark-to-Market (MTM)	(11,571)	(11,571)
Accrued interest and charges	1,131,842	1,179,804
Interest paid	<u>(805,969)</u>	<u>(857,649)</u>
Balance at December 31, 2015	<u>11,727,888</u>	<u>13,299,493</u>
New borrowings	1,114,441	1,114,441
Payment of principal	(2,820,619)	(2,820,619)
Exchange differences (principal and interest)	(503,003)	(763,213)
Mark-to-Market (MTM)	7,039	7,039
Accrued interest and charges	1,107,902	1,162,313
Interest paid	<u>(1,155,577)</u>	<u>(1,208,344)</u>
Balance at December 31, 2016	<u>9,478,071</u>	<u>10,791,110</u>

### **Hedge Accounting**

As at December 31, 2016, Cielo had financial instruments designated as hedging instrument to manage its exposure to fluctuations in interest rates and exchange rates, as described in note 28 (f) and (g).

### **Breakdown of borrowings recorded in noncurrent liabilities**

Borrowings classified as noncurrent as at December 31, 2016 by maturity date are broken down as follows:



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Year of maturity	Parent Company	Consolidated
2018	1,618,945	1,618,945
2019	35,561	35,561
2020	8,346	8,346
2021	8,346	8,346
2022	1,540,123	2,860,059
2023	3,345,468	3,345,468
2024	8,480	8,480
Total borrowings	<u>6,565,269</u>	<u>7,885,205</u>
Debt issue costs	<u>(7,522)</u>	<u>(15,098)</u>
Total	<u><u>6,557,747</u></u>	<u><u>7,870,107</u></u>

## 14 Taxes payable

	<u>Parent Company</u>		<u>Consolidated</u>	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Income tax and social contribution, net of prepayments	325,999	103,762	343,328	192,799
Tax on revenue (Cofins)	19,154	26,899	29,958	41,883
Service tax (ISS)	6,662	7,233	14,383	14,375
Tax on revenue (PIS)	7,542	9,136	10,393	12,495
Other taxes payable	<u>8,260</u>	<u>11,162</u>	<u>11,727</u>	<u>14,181</u>
Total	<u><u>367,617</u></u>	<u><u>158,192</u></u>	<u><u>409,789</u></u>	<u><u>275,733</u></u>

## 15 Other payables

	<u>Parent Company</u>		<u>Consolidated</u>	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Current liabilities:</b>				
Accrual for sundry expenses	117,981	82,102	266,396	222,644
Accrual for vacation and related charges	27,911	25,465	47,573	42,809
Profit-sharing	69,827	68,689	99,295	93,643
Other payables (a)	<u>-</u>	<u>-</u>	<u>147,058</u>	<u>160,903</u>
Total	<u><u>215,719</u></u>	<u><u>176,256</u></u>	<u><u>560,322</u></u>	<u><u>519,999</u></u>
<b>Noncurrent liabilities:</b>				
Other payables	<u>33,112</u>	<u>11,804</u>	<u>34,445</u>	<u>17,667</u>
Total	<u><u>248,831</u></u>	<u><u>188,060</u></u>	<u><u>594,767</u></u>	<u><u>537,666</u></u>

- (a) Balance basically relating to expenses of subsidiaries Cateno on embossing and mailing of cards, and Me-S on processing of transactions and fees paid to trading partners and banks.

## 16 Provision for tax, civil and labor risks and escrow deposits

### a. Provision for tax, civil and labor risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings before various courts and government agencies, arising in the normal course of their operations and involving tax, civil and labor and other matters.



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Management, based on information from its legal counsel, the analysis of pending lawsuits and past experience on the amounts claimed in tax, civil and labor lawsuits, recognized a provision in an amount considered sufficient to cover probable future cash disbursements on pending lawsuits in the years ended December 31, 2016 and 2015, as follows:

<b>Parent Company</b>						
	<b>12/31/2015</b>	<b>Additions (i)</b>	<b>Write-offs/ Reversals (ii)</b>	<b>Inflation Adjustment</b>	<b>Payments (iii)</b>	<b>12/31/2016</b>
Tax	1,292,010	207,137	(474)	989	-	1,499,662
Civil	25,918	26,796	(5,492)	4,603	(10,354)	41,471
Labor	83,145	19,103	(8,981)	778	(430)	93,615
<b>Total</b>	<b>1,401,073</b>	<b>253,036</b>	<b>(14,947)</b>	<b>6,370</b>	<b>(10,784)</b>	<b>1,634,748</b>
	<b>12/31/2014</b>	<b>Additions (i)</b>	<b>Write-offs/ Reversals (ii)</b>	<b>Inflation Adjustment</b>	<b>Payments (iii)</b>	<b>12/31/2015</b>
<b>Total</b>	<b>1,205,427</b>	<b>241,133</b>	<b>(38,246)</b>	<b>3,991</b>	<b>(11,232)</b>	<b>1,401,073</b>
<b>Consolidated</b>						
	<b>12/31/2015</b>	<b>Additions (i)</b>	<b>Write-offs/ Reversals (ii)</b>	<b>Inflation Adjustment</b>	<b>Payments (iii)</b>	<b>12/31/2016</b>
Tax	1,292,010	207,137	(474)	989	-	1,499,662
Civil	27,626	26,796	(6,119)	4,603	(10,354)	42,552
Labor	100,634	32,739	(16,083)	840	(925)	117,205
<b>Total</b>	<b>1,420,270</b>	<b>266,672</b>	<b>(22,676)</b>	<b>6,432</b>	<b>(11,279)</b>	<b>1,659,419</b>
	<b>12/31/2014</b>	<b>Additions (i)</b>	<b>Write-offs/ Reversals (ii)</b>	<b>Inflation Adjustment</b>	<b>Payments (iii)</b>	<b>12/31/2015</b>
<b>Total</b>	<b>1,223,633</b>	<b>248,770</b>	<b>(44,181)</b>	<b>4,039</b>	<b>(11,991)</b>	<b>1,420,270</b>

- (i) Refer mainly to the increase in the provision for tax risks for the years ended December 31, 2016 and 2015, relating to taxes with suspended payment, recorded as an offsetting entry to "Taxes on services" and "Other operating expenses, net", and other additions to the provision for civil and labor risks, represented by new lawsuits and changes in the assessment of the likelihood of losses made by the legal counsel, which were recorded as an offsetting entry to "Other operating expenses, net", in the statement of profit or loss.
- (ii) Basically represented by the reversal of the provision for civil and labor risks due to prescription of the allowed time to start legal proceedings, settlement of lawsuits or change in the risk of loss as assessed by the Company's and its subsidiaries' legal counsel.
- (iii) In the year ended December 31, 2016, the Company and its subsidiaries, through legal agreements or unfavorable decisions, settled 3,100 civil and labor lawsuits in the total amount of R\$10,784 and R\$11,279 in Parent Company and Consolidated, respectively.

### **Tax lawsuits**

The balances below refer to the provision for tax risks, arising from diverging interpretation by tax authorities, and related escrow deposits:

	<b>Provision for tax lawsuits (Consolidated)</b>		<b>Escrow deposits (Consolidated)</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Main tax lawsuits</b>				
Noncumulative Cofins (a)	1,457,287	1,257,102	1,439,218	1,239,776
Amazon Investment Fund (FINAM) (b)	16,544	15,835	-	-
Social contribution (CSLL) 2002 (c)	10,895	10,895	10,895	10,895
Negative Balance of IRPJ of calendar year 2008 (d)	7,045	7,045	7,045	7,045
Others	7,893	1,133	23,004	11,638
<b>Total</b>	<b>1,499,664</b>	<b>1,292,010</b>	<b>1,480,162</b>	<b>1,269,354</b>

- (a) **Noncumulative Cofins** - in February 2004, the Company filed an injunction to avoid payment of Cofins according to Law 10833/03, which requires the noncumulative calculation at the rate of 7.6%, and began to make escrow deposits for amounts determined monthly. As a result, the difference between the Cofins due calculated based on the rate established by the cumulative and noncumulative calculation method is being recorded as provision for risks since then. Escrow deposits have been made for unpaid Cofins amounts. Cielo's lawsuit is at the Federal Regional Court of the 3rd Region/SP due to the recognition of the general repercussion of the matter by the Federal Supreme Court in the court records of the Extraordinary





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Appeal, which is pending judgment. As at December 31, 2016, the provision for risks totals R\$1,457,287 and the escrow deposit balance is R\$1,439,218 (Parent Company and Consolidated).

- (b) **Amazon Investment Fund (FINAM)** - in 2007, the Company received a tax assessment notice for calendar year 2002, fiscal year 2003. The Federal Revenue Service alleges that the Request for Review of Tax Incentive Issue Order ("PERC") was not filed within the statutory deadline and, therefore, they do not recognize the portion of corporate income tax (IRPJ) related to FINAM. The administrative proceeding is pending inclusion in the trial docket for judgment of the voluntary appeal filed by the Company by the Administrative Board of Tax Appeals ("CARF"). As at December 31, 2016, the balance of the provision for risks recognized is R\$16,544 (Parent Company and Consolidated).
- (c) **Social contribution (CSLL) 2002** - in 2007, a tax assessment notice was filed against the Company to require the payment of CSLL (adjustment portion) for calendar year 2002, plus tax assessment fine (75%) and late payment interest, as well as separate fine (50%) on the estimated CSLL amounts not paid. Due to the maintenance of the tax assessment notice at the administrative level, in July 2011, the Company decided to challenge the amounts in the court. The amount of the tax credits was fully deposited in escrow accounts and is being challenged in the court through an annulment action filed in August 2011. In the lower court, a judgment was rendered dismissing the annulment action. Currently, the Company is awaiting the court decision aiming to cancel the tax assessment notice. As at December 31, 2016, the balance of the provision recognized is R\$10,895 (Parent Company and Consolidated), and the escrow deposit amount is R\$10,895 (Parent Company and Consolidated).
- (d) **Negative Balance of IRPJ of the calendar year 2008** - In 2009, the Parent Company offset the negative balance of corporate income tax (IRPJ) for calendar year 2008 for tax debts owed in 2009 upon presentation of Settlement Statement (PER/DCOMP). In assessing the Settlement Statement in 2012, the Internal Revenue Service of Brazil did not approve the tax credit and, therefore, issued Order 022405395. In January 2013, the Parent Company filed a Lawsuit for Annulment of Tax Debt in the Civil Court of the Judiciary Subsection of Osasco / SP, in order to demonstrate and prove the negative balance credit of the 2008 calendar year. The full amount of the tax credit is deposited in escrow. As at December 31, 2016, the amount of the provision for risks is R\$7,045 and the amount of the escrow deposit is R\$7,045 (Parent Company and Consolidated).

The Company and its subsidiaries are challenging other interpretations of the law by tax authorities and, therefore, as at December 31, 2016, recognized a provision for risks of R\$7,665 (Parent Company and Consolidated).

To cover other lawsuits assessed by the legal counsel as possible loss, the Company and its subsidiaries maintain escrow deposits of R\$19,906 (Parent Company) and R\$23,005 (Consolidated).

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of the provision for tax risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

### **Civil lawsuits**

Refer basically to collection of transactions made through the Company's system that were not transferred to merchants in view of noncompliance with clauses of the affiliation contract, and compensation for losses caused by transactions not transferred at that time. As at December 31, 2016, the provision for probable losses on civil lawsuits totals R\$41,471 (Parent Company), and R\$42,552 (Consolidated), and the escrow deposit balance is R\$5,517 (Parent Company) and R\$5,535 (Consolidated).

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of the mentioned provision for civil risks will occur within 5 years and understands that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at December 31, 2016, the Company is a party to public civil lawsuits and civil investigations, most of them filed by the Public Prosecution Office or professional organizations, whose intention is to defend collective interests (such as consumers' rights and labor rights). Court decisions may grant rights to groups of people (even without their consent). In many situations, the group's decision on availing a favorable outcome will only be made after the final decision.



**Labor lawsuits**

Refer to labor lawsuits that, as at December 31, 2016, include 351 claims against the Company and 72 against the subsidiaries, totaling 423 claims. Of these claims, 150 were filed by former employees, and the other remaining 273 claims were filed by subcontractors, some of whom claiming the recognition of an employment relationship.

The risk of loss on labor claims, when these are started, is assessed as possible. As a general rule, only after the decisions of the higher or lower courts are issued, the lawsuits are reclassified to probable or remote loss, depending on the decision and based on the history of losses on similar lawsuits. In general, labor lawsuits are related to salary equalization, overtime and effects of annual bonus, rights guaranteed by agreements between the employer and the labor union, recognition of employment relationship, and pain and suffering.

As at December 31, 2016, the provision for probable losses on labor claims amounts to R\$93,616 (Parent Company) and R\$117,205 (Consolidated), and the escrow deposit balance is R\$31,808 (Parent Company) and R\$36,915 (Consolidated).

Based on the opinion of its legal counsel, the management of the Company and its subsidiaries estimates that the actual disbursement of 54% of the mentioned provision for labor risks will occur within five years and 46% within ten years, and believes that the development of the lawsuits will depend on external factors not under the Company's control.

Additionally, as at December 31, 2016 and 2015, the Company and its subsidiaries are parties to tax, civil and labor lawsuits assessed by their legal counsel as possible likelihood of losses, for which no provision was recognized, as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax	89,069	83,534	93,407	113,939
Civil	124,543	83,260	124,543	83,260
Labor	94,896	81,725	117,445	102,147
Total	308,508	248,519	335,395	299,346

**b. Escrow deposits**

In the years ended December 31, 2016 and 2015, the Company and its subsidiaries have escrow deposits related to the provision for tax, labor and civil risks, broken down as follows:

	Parent Company			
	12/31/2015	Addition	Write-off	12/31/2016
Tax	1,266,231	211,108	(275)	1,477,064
Civil	5,991	1,116	(1,590)	5,517
Labor	23,981	8,281	(454)	31,808
Total	1,296,203	220,505	(2,319)	1,514,389
	12/31/2014	Addition	Write-off	12/31/2015
Total	1,103,037	194,608	(1,442)	1,296,203



	<b>Consolidated</b>			
	<b>12/31/2015</b>	<b>Addition</b>	<b>Write-off</b>	<b>12/31/2016</b>
Tax	1,269,354	211,108	(299)	1,480,163
Civil	6,043	1,117	(1,625)	5,535
Labor	27,058	10,445	(589)	36,914
Total	1,302,455	222,670	(2,513)	1,522,612
	<b>12/31/2014</b>	<b>Addition</b>	<b>Write-off</b>	<b>12/31/2015</b>
Total	1,108,475	195,527	(1,547)	1,302,455

## 17 Equity

### a. Issued capital

Capital as at December 31, 2016 is R\$3,500,000 represented by 2,264,012,551 common shares (R\$2,500,000 represented by 1,886,677,126 as at December 31, 2015), fully subscribed and paid in.

As mentioned in note 18, the number of shares, net of treasury shares as at December 31, 2016 is 2,259,768,045 (1,881,830,814 shares as at December 31, 2015).

According to the minutes of the Extraordinary General Meeting held on April 8, 2016, shareholders approved the Company's capital increase in the amount of R\$1,000,000. For the capital increase, balance from the capital budget reserve was partially used.

Share capital can be increased by up to 2,400,000,000 additional common shares, regardless of amendments to bylaws, at the discretion of the Board of Directors, which has the power to set the share issue price, the terms and conditions for subscription and payment of shares within the authorized capital limit. Except in the cases described below, according to the number of shares held, shareholders will have preemptive right to subscribe to shares issued in a capital increase, which shall be exercised within 30 days from the publication of the minutes of the Board of Director's meeting that approved such capital increase. The Board of Directors may exclude the preemptive right or reduce the term for exercising such right on the issue of shares, debentures convertible into shares or subscription warrant whose placement is made upon trade on stock exchanges, public subscription or exchange of shares, in a public offering for acquisition of control, within the authorized capital limit. The Board of Directors may also resolve on any shares that remained unsubscribed in the capital increase during the term for exercising the preemptive right and establish, prior to their sale on stock exchanges to the benefit of the Company, the apportionment, proportional to the amounts subscribed, among the shareholders that have indicated, in the subscription form or list, interest in subscribing to any remaining shares.

### b. Capital reserve

Represents share-based payment costs and goodwill on the subscription of shares related to capital contributions by shareholders that exceed the amount allocated to capital formation.



The capital reserve as at December 31, 2016 is R\$66,689 (R\$64,305 as at December 31, 2015).

**c. Capital transactions between shareholders**

In July 2016, as mentioned in New corporate business, after fulfilling suspensive conditions regarding the transaction, the Company concluded an additional acquisition of a 41.34% interest in subsidiary Multidisplay, as follows:

Net assets acquired (a)	17,849
Amounts paid on the closing date (b)	(92,309)
Amounts payable   Earn-out (c)	(7,824)
Goodwill on capital transactions between shareholders	(82,284)

- (a) Balance corresponding to 41.34% of Multidisplay's equity at the acquisition date.
- (b) Consideration transferred through amounts available in cash and cash equivalents.
- (c) Remaining balance recorded as "Other payables" in noncurrent liabilities to be paid in 43 months from the closing date, inflation adjusted based on 100% of the DI rate, contingent upon the attainment of certain "performance" goals established in the Share Purchase and Sale Agreement.

**d. Treasury shares**

On February 26, 2016, the Company's Board of Directors, pursuant to article 8, paragraph 3 of CVM Instruction No. 567/15, approved the acquisition of up to 1,000,000 common shares, without par value, issued by the Company itself, to allow the exercise of the options and/or shares to be granted under the Company's Stock Option Plan ("Plan"), approved and amended in the Annual and Extraordinary General Meetings, respectively, and for the eligible statutory and non-statutory directors according to the rules set out in the Plan, within 365 days from February 26, 2016 to February 25, 2017. Moreover, these acquisitions of shares issued by the Company itself are limited to the balance available in line item "Capital reserve" determined during the fiscal year, in compliance with articles 1 and 12 of Instruction 10/80.

The Company's Management is responsible for defining the timing and the number of shares to be acquired, within authorized limits.

Changes in treasury shares are as follows:

	Parent Company and Consolidated		
	Shares	Amount	Average cost - R\$ per share
Balance at December 31, 2015	(4,846,312)	(140,648)	29.02
Sale in January 2016	32,966	957	29.02
Sale in February 2016	255,158	7,405	29.02
Repurchase in February 2016	(394,350)	(12,263)	29.19
Repurchase in March 2016	(394,355)	(12,641)	29.40
Sale in March 2016	113,005	3,322	29.40
Sale in April 2016	5,491	161	29.40
Balance of treasury shares before the bonus	(5,228,397)	(153,707)	29.40



	<b>Parent Company and Consolidated</b>		
Increase in treasury shares due to the bonus (*)	(1,046,778)	-	24.49
Sale in April 2016	147,468	3,613	24.49
Sale in May 2016	653,943	16,018	24.49
Sale in June 2016	29,043	711	24.49
Sale in July 2016	376,261	9,216	24.49
Sale in August 2016	543,672	13,317	24.49
Sale in September 2016	136,082	3,333	24.49
Sale in October 2016	80,729	1,977	24.49
Sale in November 2016	16,803	412	24.49
Sale in December 2016	46,668	1,143	24.49
	<b>(4,244,506)</b>	<b>(103,967)</b>	
Balance at December 31, 2016			

(\*) **Bonus:** New common shares were issued in the proportion of one new common share for each lot of five common shares was freely assigned to shareholders as bonus, generating a total effect of 1,046,778 new shares in treasury.

**e. Comprehensive income**

Represent cumulative translation adjustments for translation of foreign investments into foreign currency and gains or losses on hedging instruments of foreign investments, net of taxes. The balances below reflect accumulated adjustments at the end of the reporting period, as follows:

	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Exchange differences on foreign investments	390,121	592,829
Gains (losses) on hedging instruments ("bonds") on foreign operations, net of taxes	(368,487)	(568,783)
Gains (losses) on hedging instruments ("NDF") on foreign operations, net of taxes	(10,645)	(10,645)
Total	<b>10,989</b>	<b>13,401</b>

**f. Earnings reserve - legal**

Recognized sy 5% of the profit for the year, pursuant to article 193 of Law 6404/76, up to the limit of 20% of the capital. The legal reserve balance is R\$700,000 as at December 31, 2016 (R\$500,000 as at December 31, 2015).

**g. Earnings reserve - capital budget**

At the Board of Director's meeting held on February 1, 2016, the financial statements and the capital budget proposal for the year ended December 31, 2015 were submitted for approval at the Annual General Meeting of Shareholders held on April 8, 2016. The capital budget of R\$2,306,705 consists of the equivalent to 68.4% of the profit for fiscal year 2015, less the legal reserve and the balance withheld in the capital budget for 2014. The capital budget proposal is justified by the need to improve the working capital and assure greater robustness and financial stability to the Company and facilitate the financing of is operations, especially the acquisition of sale receivables ("ARV"), and provide funds for an eventual repurchase of the Company shares.

As per the minutes of the Extraordinary General Meeting held on April 8, 2016, a capital increase of the Company in the amount of R\$1,000,000 from the capital budget reserve balance was approved.



The capital budget reserve balance as at December 31, 2016 is R\$5,151,974 (R\$3,583,619 as at December 31, 2015).

At the Board of Director's meeting held on January 30, 2017, the financial statements and the capital budget proposal for the year ended December 31, 2016 were presented and will be submitted for approval at the Annual and Extraordinary General Meeting of Shareholders to be held on April 12, 2017. The capital budget proposal is justified by the need to improve the working capital, allowing the maintenance of funds, and assure greater robustness and financial stability to the Company, facilitating the financing of its operations, especially the acquisition of sale receivables ("ARV") and provision of funds for an eventual repurchase of the Company shares, under the terms and up to the limit permitted by CVM Instruction 567. The shares that are eventually acquired will be kept in treasury, for subsequent sale, cancellation or use in future exercise of stock options granted to officers and employees, among other purposes.

**h. Dividends and interest on capital**

Under the Company's bylaws, shareholders are entitled to a mandatory minimum dividend of 30% of the profits earned, after the recognition of the legal reserve of 5% of the profit for the year until the reserve reaches 20% of the capital, as provided for in Corporate Law's article 202.

The allocation of the remaining balance of profit for the year will be decided at the Annual General Meeting. At year-end, the Company recognizes the provision for the minimum dividend that has not yet been distributed during the year up to the limit of the aforementioned minimum mandatory dividend. Under the bylaws, the Company may prepare semiannual or shorter period statements of financial position and, based on them, in accordance with the limits provided for in applicable law, the Board of Directors may approve the distribution of dividends from the profit account. The Board of Directors may also propose interim dividends from the existing profit account based on the latest statement of financial position approved by the shareholders.

Dividends were calculated as shown below:

	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Profit for the year	4,005,450	3,511,436
Earnings reserve - legal reserve	(200,000)	(139,008)
Calculation base for minimum dividends	3,805,450	3,372,428
Interim dividends paid	374,365	410,685
Interest on capital paid	238,000	114,100
Minimum dividends proposed	376,930	401,538
Interest on capital proposed	247,800	139,400
IRRF on interest on capital	(72,870)	(42,207)
Annual minimum mandatory dividend	1,164,225	1,023,516



## 18 Earnings per share

### a. Change in the number of common shares

<b>Shares issued</b>	<b>Common</b>
Shares at December 31, 2015	1,881,830,814
Exercise of stock options:	
January 2016	32,966
February 2016	255,158
Repurchase in February 2016	(394,350)
Repurchase in March 2016	(394,355)
March 2016	113,005
April 2016	5,491
Effect of bonus shares (*)	376,288,648
April 2016	147,467
May 2016	653,943
June 2016	29,043
July 2016	376,261
August 2016	543,672
September 2016	136,082
October 2016	80,729
November 2016	16,803
December 2016	46,668
<b>Total</b>	<u><u>2,259,768,045</u></u>

(\*) **Bonus:** New common shares were issued and one new common share for each lot of five common shares was freely assigned to shareholders as bonus, generating a total effect of 376,288,648 new common shares.

### *Earnings per share*

In compliance with CPC 41 - Earnings per Share, the following tables reconcile the profit and the weighted average number of outstanding shares with the amounts used to calculate the basic and diluted earnings per share.

### *Basic earnings per share*

	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Profit for the year available for common shares	4,005,450	3,511,436
Weighted average number of outstanding common shares (in thousands)	<u>2,258,708</u>	<u>2,256,954</u>
Earnings per share (in R\$) - basic	<u>1.77334</u>	<u>1.55583</u>



### ***Diluted earnings per share***

	<b>Parent Company and Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>
Profit for the year available for common shares	4,005,450	3,511,436
Diluted denominator:		
Weighted average number of outstanding common shares (in thousands)	2,258,708	2,256,954
Potential increase in common shares as a result of the stock option plan	3,805	5,798
Total (in thousands)	<b>2,262,513</b>	<b>2,262,752</b>
Earnings per share (in R\$) - diluted	<b>1.77036</b>	<b>1.55184</b>

## **19 Net revenue**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Gross operating revenue	8,194,258	7,722,308	13,543,949	12,236,954
Taxes on services	(827,269)	(779,087)	(1,243,165)	(1,114,640)
Total	<b>7,366,989</b>	<b>6,943,221</b>	<b>12,300,784</b>	<b>11,122,314</b>

The gross operating revenue is derived from the capture, transmission, processing and financial settlement of the transactions made with credit and debit cards, management of payment accounts related to Ourocard Payment Arrangement, rental of POS equipment, and provision of services for using the network.

## **20 Expenses by nature**

The Company elected to present the consolidated statement of profit or loss by function

The breakdown of cost of services provided and net operating expenses by nature is as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2015</b>
Personnel expenses	436,961	410,424	747,104	675,393
Depreciation and amortization	424,207	423,568	965,683	901,827
Professional services	429,142	385,781	475,042	408,644
Acquiring costs (a)	1,852,022	1,739,784	4,490,456	3,967,166
Sales and marketing (b)	308,841	234,186	320,413	243,828
Cost of mobile phone credits in subsidiary (c)	-	-	623,484	437,243
Others	109,291	129,575	123,139	159,897
<b>Total</b>	<b>3,560,464</b>	<b>3,323,318</b>	<b>7,745,321</b>	<b>6,793,998</b>
Classified as:				
Cost of services provided	2,313,785	2,199,048	5,994,759	5,310,684
Personnel expenses	283,002	254,110	526,131	464,556
General and administrative expenses	415,005	406,003	561,952	520,063
Sales and marketing	308,841	234,186	320,413	243,828
Other operating expenses, net	239,831	229,971	342,066	254,867
<b>Total</b>	<b>3,560,464</b>	<b>3,323,318</b>	<b>7,745,321</b>	<b>6,793,998</b>





- (a) Acquiring costs are mainly represented by expenses on logistics and maintenance of POS equipment, supplies to merchants, customer registration and service, telecommunication services, and capture and processing of transactions.
- (b) Sales and marketing expenses include campaigns for trademark development, advertising and publicity, internal marketing and sales incentives to partners and card-issuing banks.
- (c) Refer to the cost of the product sold related to the credit minutes for cell phones sold by the direct subsidiary Multidisplay.

## 21 Other operating expenses, net

Represented by:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Allowance for doubtful debts and fraud	(161,363)	(148,350)	(221,070)	(172,345)
Provision for risks, net	(31,765)	(14,782)	(38,228)	(16,394)
Write-offs of and provision for loss on property and equipment	(46,693)	(64,844)	(47,848)	(64,845)
Provision for loss on investments (a)	-	-	(23,997)	-
Expenses on strategic projects (b)	-	(7,732)	-	(7,732)
Others	(9)	5,737	(10,923)	6,449
Total	(239,830)	(229,971)	(342,066)	(254,867)

- (a) In the year ended December 31, 2016, the Company recognized a provision for loss on the investment in Stelo, through its subsidiary Aliança.
- (b) Expenses on investment banks and attorneys related to the strategic project of creating Cateno in association with BB ELO Cartões, a wholly-owned subsidiary of Banco do Brasil S.A.

## 22 Commitments

The Company is primarily engaged in the capture, transmission, processing and financial settlement of transactions made using credit and debit cards. In order to conduct said activities, the Company entered into the following agreements:

### a. Lease agreements

As at December 31, 2016, future annual payments under lease agreements in effect are estimated as follows:

	Consolidated
Up to 1 year	15,060
1 year to 5 years	27,311
Over 5 years	-
Total	42,371

Most agreements specify a penalty for termination equivalent to three-month rent, and a partial return can be negotiated for each case.

### b. Providers of telecommunications, technology (processing of transactions), logistics call center and back office services

As at December 31, 2016, based on contracts in effect, the minimum commitments with suppliers of technology, telecommunications, logistics, call center, back office and telesales services are as follows:



	<b>Consolidated</b>
Up to 1 year	213,650
1 year to 5 years	462,598
Over 5 years	-
Total	<b>676,248</b>

The call center contracts contain penalties for termination in the amount of R\$9,474. The transaction capture and processing contracts, as well as the telecom and back office contracts, do not provide for penalty for termination.

## 23 Employee benefits

### Pension plan

The Company and its subsidiary Servinet contribute monthly to a defined contribution pension plan ("PGBL") for their employees, and contributions made during the year ended December 31, 2016 amounted to R\$7,367 (R\$9,887 during the year ended December 31, 2015), recognized in line items "Cost of services provided" and "Personnel expenses".

### Other benefits

Further to the benefit of pension plan the Company and its subsidiaries offer their employees other benefits, among them: health insurance, dental care, life and personal accident insurance and professional training, these expenses totaled R\$53,503 in the year ended December 31, 2016 (R\$48,073 in the year ended December 31, 2015).

The Company has a Corporate Education Program that aims to leverage learning, ensuring the mapping and the dissemination of key knowledge through educational practices and actions that encourage the creation, acquisition, dissemination, use and sharing of knowledge, focusing on business results. In addition, at the Company there are development actions for all its employees, for example, leadership development, e-learning, contractual training, on-demand training, continuing education and languages. The costs related to the actions described are recognized in profit or loss when incurred.

## 24 Profit sharing

The Company and its subsidiaries pay profit sharing to their employees and officers, subject to the achievement of operational targets and specific objectives established and approved at the beginning of each fiscal year.

The shares of employees and officers in profit for the years ended December 31, 2016 and 2015 were recognized in line item "Personnel expenses" in the statement of profit or loss and are presented as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Employees	58,775	55,027	81,148	74,568
Statutory directors	11,051	13,663	12,547	15,454
Total	69,826	68,690	93,695	90,022



## 25 Compensation of key management personnel

Key management personnel include the members of the Board of Directors and the statutory directors. Expenses recognized in profit for the years are as follows:

	12/31/2016			12/31/2015		
	Fixed	Variable (*)	Total	Fixed	Variable (*)	Total
Statutory Directors	7,673	10,347	18,020	6,532	10,921	17,453
Board of Directors	2,037	-	2,037	1,883	-	1,883
Total	9,710	10,347	20,057	8,415	10,921	19,336

(\*) Not including the stock option plan (see note 26).

The overall annual compensation of Management (Executive Officers and Board of Directors) and of the Supervisory Board in 2016, set by the Annual General Meeting held on April 8, 2016, was R\$46,458, plus the related taxes and contributions thereon, as prescribed by the relevant laws.

For the Supervisory Board, the annual compensation approved for the years ended December 31, 2016 and 2015 was R\$515 and R\$547, respectively.

### a. Stock option plan and restricted shares

The Extraordinary General Meeting held on June 1, 2009 approved the Company's stock option plan, which is effective for ten years counted from the date of first grant to beneficiaries.

The Extraordinary General Meeting held in April 2011 approved the changes to the plan, by introducing a possibility of eligible employees choosing a stock option plan, a restricted shares plan or a combination of both; exercise of 50% of the options and/or restricted shares after two years and 50% after three years. In 2010, the beneficiaries under the Stock Option Plan and Vesting Agreement may exercise the first portion of the stock options granted, equivalent to 1/3 of total, after one year.

Within the authorized capital limit, as mentioned in note 17 (a), the Company may grant stock option or subscription to Management members and employees and individuals providing services to the Company, as well as managers and employees of other companies that are directly or indirectly controlled by the Company. Stock options or restricted shares may be granted provided that capital dilution does not exceed, at any time during the effectiveness of the plan, 0.3% per year. The Company's Board of Directors will define the beneficiaries eligible for the stock option plan annually or at the frequency considered appropriate.

Board of Directors' meetings held on June 22, 2011, June 20, 2012, June 19, 2013, June 25, 2014, June 24, 2015 and June 29, 2016 approved the fourth, fifth, sixth, seventh, eighth and ninth grants of common and/or restricted shares purchase options, respectively, as shown in the chart below, with no option to settle options in cash. The ninth grant was held on July 6, 2016, totaling 650,947 restricted shares.

The Board of Directors meeting held on February 29, 2012 approved the Company's Management retention plan under the Restricted Shares program, known as "Sócio Cielo". The purpose of this program is to minimize the risks for the Company's business arising from the loss of Management members and enhance the commitment of such members to long-term



results. The Management retention program is effective for two years and the shares granted will be transferred to the executives who remain in the Company at the end of the program.

In meetings of the Board of Directors held on February 26, 2014, February 25, 2015 and January 27, 2016, the plans *Sócio Cielo* 2014, 2015 and 2016 - "Restricted shares" were approved and granted in March of the same year.

Grant date	Number of shares									Exercise price (R\$ per share)	Fair value of options (R\$ per share)
	Granted	Canceled	Exercised	Bonus					Balance		
				2012	2013	2014	2015	2016			
July 2011	1,312,065	(212,978)	(2,423,187)	239,266	269,520	811,283	54,397	25,785	76,151	7.54	3.01
July 2012	986,475	(183,624)	(2,070,914)	-	188,945	1,047,455	254,514	107,483	330,334	12.87	5.29
July 2013	1,049,141	(266,809)	(1,736,392)	-	-	989,734	370,317	263,000	668,991	15.03	7.00
July 2014	1,561,552	(265,184)	(662,321)	-	-	-	303,607	311,729	1,249,383	22.65	10.44
March 2015	178,492	(10,076)	(74,113)	-	-	-	-	34,971	129,274	-	23.49
July 2015	557,354	(81,177)	(43,927)	-	-	-	-	105,050	537,300	-	34.59
March 2016	235,536	-	(80,380)	-	-	-	-	47,108	202,264	-	26.48
July 2016	650,947	(36,999)	(2,315)	-	-	-	-	-	611,633	-	32.91
<b>Total</b>	<b>6,531,562</b>	<b>(1,056,847)</b>	<b>(7,093,549)</b>	<b>239,266</b>	<b>458,465</b>	<b>2,848,472</b>	<b>982,835</b>	<b>895,126</b>	<b>3,805,330</b>	<b>-</b>	<b>-</b>

To determine the fair value of options, from 2011, the binomial pricing model was chosen. In previous years the Black & Scholes methodology was used, based on the following economic assumptions:

	Grant on			
	July 2011	July 2012	July 2013	July 2014
Dividend yield	8.87%	5.36%	3.71%	3.31%
Share price volatility	38.27%	31.65%	30.06%	23.15%
Expected period for exercise	6 years	6 years	6 years	6 years

For the year ended December 31, 2016, a provision of R\$31,067 was recognized, net of charges (R\$22,952 as at December 31, 2015), with an offsetting entry in line item "Personnel expenses".

These amounts refer to the portion of Statutory Directors in the amount of R\$15,817 net of charges (R\$9,799 as at December 31, 2015).

2,437,288 shares in the amount of R\$28,683 were exercised in the year ended December 31, 2016 (2,452,856 shares amounting to R\$34,501 in the year ended December 31, 2015), and the total stock options granted were recognized in line item "Capital reserve" in equity, in the amount of R\$2,384 as at December 31, 2016 (R\$11,549 as at December 31, 2015).



## 26 Finance income (costs)

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
<b>Finance income:</b>				
Interest on short-term investments	114,936	68,198	255,338	145,250
Pis and Cofins on finance income (b)	(7,001)	(724)	(13,542)	(3,289)
Other finance income	2,278	1,963	2,987	2,518
<b>Total</b>	<b>110,213</b>	<b>69,437</b>	<b>244,783</b>	<b>144,479</b>
<b>Finance costs:</b>				
Late payment interest and fines	(621)	(443)	(660)	(600)
Provision for risks	(6,409)	(3,305)	(6,471)	(3,353)
Interest on borrowings	(1,108,823)	(1,100,610)	(1,163,234)	(1,148,570)
Other finance costs	(20,934)	(19,292)	(22,172)	(21,007)
<b>Total</b>	<b>(1,136,787)</b>	<b>(1,123,650)</b>	<b>(1,192,537)</b>	<b>(1,173,530)</b>
<b>Income from purchase of receivables:</b>				
FIDC interest and purchase of receivables (a)	2,695,113	2,391,087	2,694,251	2,388,691
Pis and Cofins on finance income (b)	(123,033)	(45,627)	(123,033)	(45,627)
Cost of funding with third parties (c)	(161,418)	(213,237)	(161,418)	(213,237)
<b>Total</b>	<b>2,410,662</b>	<b>2,132,223</b>	<b>2,409,800</b>	<b>2,129,827</b>
Exchange differences, net (d)	(10,800)	2,190	(10,736)	2,371
<b>Total</b>	<b>1,373,288</b>	<b>1,080,200</b>	<b>1,451,310</b>	<b>1,103,147</b>

- (a) Purchase of receivables net of pro rata temporis adjustment for the years ended December 31, 2016 and 2015 comprising income from receivables relating to cash and installment sales transactions purchased by the parent company and FIDC, recognized according to the maturity dates of the transactions.
- (b) Expenses on Pis and Cofins on finance income earned by the Group companies, subject to the non-cumulative taxation regime, at the rates of 0.65% and 4%, respectively, as laid down in Decree 8426/15, effective July 1, 2015. The expenses incurred in the period were recognized as "Finance Income" and "Purchase of Receivables", in the proportion of their levy, for a better presentation of the account balances.
- (c) Financial charges arising from funding with third parties to undertake transactions related to purchase of receivables. Funding for the year ended December 31, 2015 was partially in the form of Promissory Notes issued on December 29, 2014 and fully redeemed on April 13, 2015 (see note 13), funds from Bank of Tokyo-Mitsubishi UFJ, Ltd. (see note 13) and transactions related to advances on the flow of receivables with issuers (see note 11). Cost of funding with third parties was recognized in line item "Income from Purchase of Receivables" for a better presentation of the net impact of the purchase of receivables on the individual and consolidated financial statements.
- (d) Derives basically from exchange differences related to three borrowings in U.S. dollars in the amounts of US\$204,625, US\$109,016 and US\$ 297,327 thousand, equivalent to R\$630,000, R\$370,000 and R\$1,000,000 at the contracting dates respectively, the first two due and settled on December 19, 2016 and the last with maturity on June 21, 2017, all obtained from Bank of Tokyo-Mitsubishi UFJ, Ltd, and fluctuation of the financial instruments contracted to hedge these transactions, as mentioned in note 13(f), represented by:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Exchange differences, net:				
Income	175,114	267,295	175,224	267,493
Expenses	(185,914)	(265,105)	(185,960)	(265,122)
<b>Total</b>	<b>(10,800)</b>	<b>2,190</b>	<b>(10,736)</b>	<b>2,371</b>

## 27 Financial instruments

The estimated fair values of the Group's financial assets and financial liabilities were determined using available market inputs and appropriate valuation methodologies. However, considerable judgment was required to interpret market inputs and then develop the most appropriate fair value estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in the market. The use of different market methodologies may have a significant effect on the estimated realizable values.



These financial instruments are managed through operating strategies that aim at obtaining liquidity, profitability and security. The control policy consists of ongoing monitoring of the contracted rates compared to market rates. The Group does not make investments for speculative purposes, either in derivatives or in other risk assets.

**a. Capital risk management**

The Group manages its capital to ensure that its companies can continue as going concerns at the same time they maximize the return to all stakeholders or parties involved in the operations by optimizing the debt and equity balance.

The Group's capital structure consists of its equity and net debt (borrowings less cash and cash equivalents, derivative financial instruments and financial investments).

The subsidiary Cateno maintains a minimum equity, under the BACEN regulations, corresponding to 2% of the monthly average of the payment transactions within the scope of the Ourocard Payment Arrangement. There is no requirement for compliance with a minimum equity for the other Group companies.

From the granting of the authorization to operate as a Payment Institution by the BACEN, mentioned in note 2.20, the parent company Cielo will be subject to compliance with the regulations, which include, but not limited to, risk management, minimum equity, and compliance with requirements similar to those applicable to a Financial Institution.

The debt ratio at the end of the reporting period is as follows:

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Debt (i)	(9,478,071)	(11,727,888)	(10,791,110)	(13,299,493)
Derivative financial instruments (ii)	(37,665)	213,314	(37,665)	213,314
Cash and cash equivalents	933,048	44,487	2,658,956	1,249,524
Financial investments	75,481	66,124	75,481	66,124
Net debt	(8,507,207)	(11,403,963)	(8,094,338)	(11,770,531)
Equity (ii)	9,243,401	6,520,676	12,902,990	10,163,966
Net debt ratio	92.04%	174.89%	62.73%	115.81%

(i) Debt is defined as short- and long-term borrowings, as described in note 13.

(ii) Equity includes the entire share capital and the Group's reserves, managed as capital.

**b. Financial assets and financial liabilities**

The Group's financial assets and financial liabilities are cash and cash equivalents, trade receivables, receivables from related parties, derivative financial instrument (swap), financial investments, investment fund in credit rights, escrow deposits, trade payables, payables to merchants, payables to related parties, payables for acquisition of subsidiary, and borrowings.



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The estimated fair values of the financial instruments as at December 31, 2016 are as follows:

		12/31/2016			
		Parent Company		Consolidated	
	Type	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalentes	Fair value through profit or loss	933,048	933,048	2,658,956	2,658,956
Trade receivables	Loans and receivables	1,713,425	1,713,425	11,014,048	11,014,048
Receivables from related parties	Loans and receivables	1,661	1,661	-	-
Derivative financial instruments (Swap)	Fair value through profit or loss	37,665	37,665	37,665	37,665
Financial investments	Held-to-maturity	75,481	75,481	75,481	75,481
Investment fund in credit rights	Available-for-sale financial assets	8,310,458	8,310,458	-	-
Escrow deposits	Loans and receivables	1,514,389	1,514,389	1,522,612	1,522,612
Trade payables	Other financial liabilities	725,226	725,226	837,583	837,583
Payables to merchants	Other financial liabilities	1,196,978	1,196,978	1,924,255	1,924,255
Payables to related parties	Other financial liabilities	21,472	21,472	-	-
Borrowings	Loans and receivables	8,513,153	8,658,708	9,826,191	9,969,729
Borrowings	Fair value through profit or loss	964,918	964,918	964,918	964,918

The fair value of financial assets and financial liabilities and short- and long-term borrowings was determined, when applicable, by using current interest rates available for transactions conducted under similar conditions and with similar maturity dates.

The Company applies CPC 40 for financial instruments measured at fair value in the statement of financial position, which requires disclosure of fair value measurements at the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on data adopted by the market (that is, unobservable inputs) (Level 3).

The table below presents the Group's assets and liabilities as at December 31, 2016:

	Parent Company			Consolidated		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets:</b>						
Cash and cash equivalentes	933,048	-	-	2,658,956	-	-
Investment fund in credit rights	-	8,310,458	-	-	-	-
Financial investments	-	75,481	-	-	75,481	-
Others (loans and receivables)	-	3,229,475	-	-	12,536,660	-
<b>Liabilities:</b>						
Borrowings	-	9,478,071	-	-	10,791,110	-
Others (other financial liabilities)	-	1,943,676	-	-	2,761,838	-
Derivative financial instruments (swap)	-	37,665	-	-	37,665	-



**c. Credit risk**

In Cielo's operations of merchant acquiring, the primary risk refers to the possibility of default of card issuers, which are required to transfer to the Company the amounts charged relating to transactions carried out by holders of the cards issued by them, so that Cielo can then transfer these amounts to its affiliated establishments. This primary risk is substantially mitigated by the very legal-financial model of transferring amounts adopted by the Company since the amounts already paid by the holders to an issuer that eventually becomes in default will always be treated as third-party funds and, as such, should be transferred to Cielo and, then, from Cielo to the merchant - the end creditor of the transaction.

Cielo's model of transferring amounts substantially mitigates the risk of default of the card issuers, also remaining a residual risk to the Company relating to the possible default of cardholders with the issuer in a situation of default. This residual risk may or may not exist for Cielo depending on the risk/guarantee model adopted by the card Brand on its operation with card issuers and acquirers.

Each brand has its own guarantee system, which is specified in its regulations. Considering the variation of the guarantee model and the risk level of the accrediting entities, the Company assesses and manages such risks according to the model of each brand, requiring or waiving the provision of guarantees.

Note that even with this model of hedging provided by the Brand, in an eventual situation of default of any card issuer, Cielo will always resort primarily to its legal-financial model of transferring amounts for the prompt recovery of amounts received or that come to be received from cardholders by the card issuer.

The Company has rights subject to credit risk with financial institutions recognized in line items cash and cash equivalents, financial investments, derivative financial instruments and receivables from card-issuing banks, totaling R\$2,759,619 in parent company and R\$13,786,150 in consolidated.

**d. Fraud risk**

The Company uses an antifraud system to monitor transactions with credit and debit cards, which detects and identifies suspected fraud at the time of the authorization and sends an alert message to the card-issuing bank for it to contact the cardholder.

**e. Transactions with derivative financial instruments**

***Policy on the use of derivatives***

According to the internal policy, the Company's finance income (costs) must derive from the generation of cash from its activities rather than from gains in the financial market.

Accordingly, it considers that derivatives should only be used to hedge against potential exposures arising from risks to which it is exposed, without speculative purposes. The contracting of a derivative transaction should have as counterparty an unhedged asset or liability.

The criterion adopted for definition of the notional value of derivatives is linked to the amount of the debt and/or of the assets denominated in foreign currency.





**f. Hedges of net investments in foreign operations**

The Company, after the funds raised on the issuance of bonds in November 2012 and based on Interpretation 16 of the International Financial Reporting Interpretations Committee - IFRIC (technical interpretation ICPC 06 - Hedge of Net Investments in Foreign Operations), issued in July 2008, and on standard IAS 39 (technical pronouncement CPC 38 - Financial Instruments: Recognition and Measurement), elected to designate as hedge for the investment in Cielo USA, in the amount of US\$311,981 thousand, the ten-year bonds held by the Company, in the amount of US\$470,000 thousand to hedge against the risk of foreign currency fluctuations. The value of the designated financial instrument, i.e., the ten-year bonds, is increased by the income tax and social contribution gross-up (rate of 34% under the relevant Brazilian tax legislation) for purposes of analysis of the hedge accounting effectiveness.

The net investment hedge effects were accounted for in accordance with CPC 38 and IAS 39 - Financial Instruments: Recognition and Measurement. Accordingly, the Company formally designated the transactions by documenting the: (i) purpose of the hedge; (ii) type of the hedge; (iii) nature of the hedged risk; (iv) identification of the hedged item; (v) identification of the hedging instrument; (vi) demonstration of the relationship between the hedge and the hedged item (retrospective effectiveness test); and (vii) prospective demonstration of the effectiveness.

The application of the effectiveness tests confirmed the effectiveness of the financial instrument; accordingly, for the year ended December 31, 2016, there was no ineffectiveness recognized in profit or loss arising from net investment hedges at Cielo USA; consequently, gains or losses on these transactions were fully recognized in the Company's equity.

**g. Fair value hedge**

The Company, upon contracting of Swap Financial Instrument based on Technical Pronouncement CPC 38 (Financial Instruments: Recognition and Measurement) corresponding to the International Accounting Standard 39 (Financial Instruments: Recognition and Measurement), designated it as a hedge instrument for the three borrowings in U.S. dollars in the amounts of US\$204,625, US\$109,016 and US\$297,327 equivalent to R\$ 630,000, R\$370,000 and R\$1,000,000 on the contracting dates, respectively, the first two due and settled on December 19, 2016 and the last with maturity date on June 22, 2017, to hedge against the risk of foreign currency fluctuations and exposure to interest rates.

As at December 31, 2016, the individual and consolidated position of swaps is as follows:

	12/31/2016						12/31/2015	
	Maturity date	Notional R\$	Valuation			Fair value (market)	Fair value (market)	
			Long position	Short position	MTM adjustment	Amount receivable/ (payable)	Amount receivable/ (payable)	
Swap floating rate in US\$: 1.7800% a.a. - From 12/22/16 to 03/22/17 1.8800% a.a. - From 03/22/17 to 06/22/17 vs. floating rate in R\$ (101.4% to DI)	06.22.2017	1,000,000	(30,489)	(3,090)	(4,087)	(37,665)	-	
Total		1,000,000	(30,489)	(3,090)	(4,087)	(37,665)	213,314	
Current liabilities						(37,665)	213,314	
Noncurrent liabilities						-	-	



The terms of the borrowing and swap agreements, as mentioned in note 13(f), were entered into so that the comparison between the swap's long position (Company's accounts receivable) and the borrowing balance (Company's accounts payable), both adjusted at fair value, does not present losses or gains derived from foreign exchange rate and interest rate fluctuations in the hedged item. Accordingly, the Company remains exposed only to the swap short position, which has a notional amount in reais of R\$1,000,000 remunerated at 101.4% of the daily average interest rate of the DI - Interbank Deposits.

In order to document the adopted designation strategy and the effectiveness of the derivative financial instrument, the Company used the hypothetical derivative method, which is based on a comparison of the change in the fair value of a hypothetical derivative with terms identical to the critical terms of the floating rate obligation, and this change in the fair value of the hypothetical derivative is considered a representation of the present value of the cumulative change in the expected future cash flow of the hedged obligation. Accordingly, gains and losses on the hedging instrument and the hedged item are recognized at fair value in profit or loss for the period in which they arise.

The method used by the Company to determine the fair value consists in calculating the future value based on contracted conditions and determine the present value based on market curves extracted from BM&F BOVESPA.

As at December 31, 2016, the hedging relationships established by the Company were effective, according to prospective tests conducted. Thus, no reversal for hedge accounting ineffectiveness was recognized.

**h. Foreign exchange rate risk**

The Group conducts some transactions in foreign currency, mainly represented by transactions carried out by foreign credit card holders in merchants in Brazil. In addition, on August 31, 2012, the Company acquired the control of Me-S through its holding Cielo USA, both headquartered in the United States of America, whose transactions are carried out in the functional currency, the US dollar.

The exposures to foreign exchange rate risks are managed according to the parameters established by the approved policies using currency futures contracts.

As at December 31, 2016, the exposure to foreign exchange rate risk, net of the hedging instruments, in thousands of US dollars, is as follows:

	<b>Parent Company</b>	<b>Consolidated</b>
<b>Assets:</b>		
Cash and cash equivalents	6,991	169,771
Trade receivables	845	158,359
Other assets	-	6,360
Investments in foreign currency	306,444	-
Property and equipment	-	7,781
Intangible assets, including goodwill	-	691,531
	314,280	1,033,802
<b>Total</b>	<b>314,280</b>	<b>1,033,802</b>



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	<b>Parent Company</b>	<b>Consolidated</b>
<b>Liabilities:</b>		
Payables to merchants	(1,881)	(225,034)
Other liabilities	-	(21,377)
Foreign borrowings - principal	(470,000)	(875,000)
Foreign borrowings - interest	(2,204)	(2,831)
Foreign borrowings - charges	-	2,744
Deferred income tax	-	(72,109)
Tax effect on hedging instruments- bonds designated as hedge of the net foreign investment	159,800	159,800
<b>Total</b>	<b>(314,285)</b>	<b>(1,033,807)</b>
Long (short) position - US dollar	(5)	(5)

The Company enters into transactions to hedge against currency fluctuations, which consist in pre-sale of US dollars, which reduces significantly any risks of currency fluctuation exposure.

***Foreign currency sensitivity analysis***

The Group is mainly exposed to US dollar fluctuations.

The sensitivity analysis includes only monetary items outstanding and denominated in foreign currency and adjusts their translation at the end of each reporting period for a change of 10%, 25% and 50% in exchange rates. The sensitivity analysis includes borrowings from third parties when they are denominated in a currency different from that of the creditor or debtor. As at December 31, 2016, estimating the increase or decrease by 10%, 25% and 50% in exchange rates, there would be an increase or decrease in profit or loss and equity, in thousands of Brazilian reais (R\$), as follows:

	<b>Parent Company and Consolidated</b>		
	<b>Probable scenario 10%</b>	<b>Possible scenario 25%</b>	<b>Remote scenario 50%</b>
Profit or loss (i)	(1,941)	(4,851)	(9,703)
Equity (i)	(716)	(1,791)	(3,582)

- (i) Refers mainly to the exposure of trade receivables and trade payables in US dollars at the end of each reporting period.

**i. Interest rate risk on financial investments**

The Company's profit or loss are subject to significant fluctuations derived from financial investments with floating interest rates. Pursuant to its financial policies, the Company invests its funds in first-tier financial institutions. The Company operates with financial instruments within the limits and approval levels established by Management.

**j. Liquidity risk**

The Group manages the liquidity risk by maintaining proper reserves, bank and other credit facilities to raise new borrowings that it considers appropriate, based on the continuous monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and financial liabilities.

**k. Interest rate sensitivity analysis - Financial investments and borrowings**

Income from financial assets and interest on the Company's borrowings are mainly



affected by fluctuations in DI rate (source: Cetip). As at December 31, 2016, the balances exposed to fluctuations in DI rate are R\$977,765 in parent company and R\$2,162,543 in consolidated relating to financial investments and R\$7,619,430 in parent company and consolidated relating to borrowings. Estimating an increase or a decrease of 10%, 25% or 50% in interest rates would increase or decrease revenues or expenses as follows:

	Parent Company			Consolidated		
	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%	Probable scenario 10%	Possible scenario 25%	Remote scenario 50%
Financial investments	11,494	28,734	57,468	25,534	63,835	127,669
Borrowings	109,649	274,122	548,243	115,090	287,724	575,449

## 28 Related-party balances and transactions

In the normal course of their activities and under market conditions, the Company, its subsidiaries and associate conduct transactions with related parties, such as receivables (related to operations of purchase of receivables) from card-issuing banks, which are financial groups in which its controlling shareholders, Banco Bradesco S.A. and Banco do Brasil, hold interests, as well as expenses and income from services provided by Servinet, Orizon, Multidisplay, M4Produtos, Cateno, Braspag, Aliança, Stelo and FIDC.

In conducting its business and contracting services, the Company and its subsidiaries make market quotations and surveys intended to find the best technical and pricing terms. Also, the type of business conducted by the Company requires it to enter into agreements with various card-issuing entities, some of which are its direct and indirect shareholders. The Company and its subsidiaries believe that all the agreements entered into with related parties are carried out on an arm's-length basis.

The tables below include the balances as at December 31, 2016 and 2015, by type of agreement, shareholders and subsidiaries, of transactions with related parties conducted by the Company, its subsidiaries and associate related to the years ended December 31, 2016 and 2015:



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Parent Company		12/31/2016								12/31/2015		
Shareholders		Subsidiaries, joint ventures and associate								Total		
Banco Bradesco	Banco do Brasil	Servinet	Orizon	Multidisplay	M4Produtos	Paggo	Braspagg	Cateno	FIDC	Aliança	Total	Total
1,539	338,499	-	-	-	-	-	-	-	-	-	340,038	13,550
3,727	1,872	-	-	-	-	-	-	-	-	-	5,599	5,892
-	(3,502,012)	-	-	-	-	-	-	-	-	-	(3,502,012)	(3,506,434)
-	-	39	-	530	992	-	5	45	50	-	1,661	1,587
-	-	(12,932)	-	-	(4,922)	-	(3,191)	-	-	(427)	(21,472)	(17,808)

**Assets (Liabilities):**

Cash and cash equivalents (a)  
 Trade receivables  
 Borrowings (g)  
 Receivables from related parties  
 Payables to related parties

Consolidated		12/31/2016								12/31/2015		
Shareholders		Subsidiaries, joint ventures and associate								Total		
Banco Bradesco	Banco do Brasil	Servinet	Orizon	Multidisplay	M4Produtos	Paggo	Braspagg	Cateno	FIDC	Aliança	Total	Total
20,254	654,348	-	-	-	-	-	-	-	-	-	674,602	289,631
3,727	1,872	-	-	-	-	-	-	-	-	-	5,599	5,892
-	(3,502,012)	-	-	-	-	-	-	-	-	-	(3,502,012)	(3,506,434)
-	-	-	-	-	-	-	-	-	-	-	-	459
-	-	-	-	-	-	-	-	-	-	-	-	(398)

**Assets (Liabilities):**

Cash and cash equivalents (a)  
 Trade receivables  
 Borrowings (g)  
 Receivables from related parties  
 Payables to related parties



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		Parent Company											
		12/31/2016										12/31/2015	
		Subsidiaries, joint ventures and associate											
Shareholders		Banco do Brasil	Servinet	Orizon	Multidisplay	M4Produtos	Paggo	Braspagg	Cateno	FIDC	Aliança	Total	Total
<b>Income:</b>													
	Income from financial investments (a)	5,826	-	-	-	-	-	-	-	-	-	49,159	58,672
	Income from other services provided (b)	38,926	-	9	22,610	8,299	-	236	-	241	2,986	93,240	73,383
	Income from rental of POS equipment (c)	-	-	47	-	-	-	-	-	-	-	47	103
<b>Expenses:</b>													
	Other operating expenses - affiliation commission	(2,944)	-	-	-	-	-	-	-	-	-	(5,391)	(8,084)
	Other operating expenses (d)	(27,972)	-	-	-	-	-	-	-	-	-	(30,820)	(44,128)
	Service agreement with Servinet and Aliança (e)	-	(168,807)	-	-	-	-	-	-	-	-	(168,807)	(158,436)
	Provision of data processing services (f)	-	-	-	-	-	(3,950)	-	-	-	-	(3,950)	(561)
	Finance costs (g)	-	-	-	-	-	-	-	-	-	-	(497,549)	(403,493)
	Provision of promissory notes placement service	-	-	-	-	-	-	-	-	-	-	-	(4,560)
		<b>Consolidated</b>											
		12/31/2016										12/31/2015	
		Subsidiaries, joint ventures and associate											
Shareholders		Banco do Brasil	Servinet	Orizon	Multidisplay	M4Produtos	Paggo	Braspagg	Cateno	FIDC	NP-Cielo	Aliança	Total
<b>Income:</b>													
	Income from financial investments (a)	5,826	-	-	-	-	-	-	-	-	-	-	183,683
	Income from other services provided (b)	38,926	-	9	-	-	-	-	-	-	-	-	59,868
	Income from rental of POS equipment (c)	-	-	47	-	-	-	-	-	-	-	-	47
<b>Expenses:</b>													
	Other operating expenses - affiliation commission	(2,944)	-	-	-	-	-	-	-	-	-	-	(5,391)
	Other operating expenses (d)	(27,972)	-	-	-	-	-	-	-	-	-	-	(30,820)
	Finance costs (g)	-	-	-	-	-	-	-	-	-	-	-	(497,549)
	Provision of payment management service (h)	-	-	-	-	-	-	-	-	-	-	-	(23,793)
	Provision of promissory notes placement service	-	-	-	-	-	-	-	-	-	-	-	-



- (a) Balances corresponding to the amounts held in checking account and financial investments whose terms, charges and interest rates were agreed under conditions similar to those applicable to unrelated parties.
- (b) Refer to fraud prevention services and receivables-based financing provided by the Company to the shareholder banks, commission on processing of transactions for the companies M4Produtos, Multidisplay and Orizon, provision of financial, administrative, procurement, legal, and HR services for the company Braspag and purchase of receivables from the company Multidisplay and fare collection and settlement services for FIDC. These related-party transactions are carried out at prices and conditions similar to those practiced with other issuing banks.
- (c) Refer to rental of POS equipment to Orizon.
- (d) Services contracted with shareholder banks, relating to: (i) corporate collective life insurance; (ii) health and dental insurance; and (iii) private pension agreement. Development of mobile capture solution services for the company M4Produtos and transactions pre-processing services for the company Braspag. The Company understands that the financial conditions adopted by the shareholders in respect of prices, terms and other conditions were applied under conditions similar to those adopted with respect to third parties.
- (e) Provision of contact registering and maintenance services by the subsidiaries Servinet and Aliança with merchants and service providers for acceptance of credit and debit cards, as well as other means of payment. The remuneration for services provided is established based on costs incurred by Servinet and Aliança when such services are provided, plus taxes and contributions, as well as a remuneration margin.
- (f) Refer to data processing services provided by Braspag.
- (g) Refer to the balances of the Private Debenture issuance (see note 13.d) maintained by BB Elo Cartões, a company of the Banco do Brasil conglomerate.
- (h) Provision of services by Banco do Brasil to Cateno to operate as Payment Institution in the management of post-paid accounts and purchase functions by charging the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it.

## **Main related-party transactions**

### ***Balances of card-issuing banks***

Receivables from card-issuing banks, presented on a net basis in line item “Payables to merchants”, refer to the amounts payable by the issuers to the Company derived from the transactions carried out with credit and debit cards, which will be subsequently transferred by the Company to the authorized merchants. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other issuers of credit or debit cards.

### ***Domicile bank incentives***

The Company entered into agreements with domicile banks to promote the invoicing of commissions and purchase of receivables. Under these agreements, the Company remunerates the banks based on the performance and metrics established therein.

### ***Prepayment of receivables from card-issuing banks***

The Company has agreements with card-issuing banks to transfer in advance the amounts from the transactions carried out by the bank's customers with credit cards. These prepayment transactions are performed in order to generate short-term working capital and the amounts deposited in current account are net of prepayment fees, on a pro rata basis, calculated at the market rates that do not significantly differ from those adopted by the card-issuing banks that are not the Company's shareholders.

### ***Use of Cielo authorized network (Value Added Network - VAN)***

The Company entered into service agreements with Companhia Brasileira de Soluções e Serviços - CBSS. These services include the capture, authorization and processing of transactions with ALELO cards, as well as services provided to merchants, operational and financial back office services, protection against fraud, issuance of statements and financial control over the electronic transactions resulting from these transactions. The fees and tariffs charged for these related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other third party partners.



***VAN services and connectivity rate - Amex***

The Company entered into a nonexclusive service agreement for the capture of credit card transactions issued under Amex (VAN) card association with Banco Bradesco Cartões S.A. (which merged Banco BankPar S.A.) (“Banco Bradesco Cartões”), a Bradesco group’s company which holds the rights over the American Express (“Amex”) card association in Brazil. The agreement established, through 2015, Banco Bradesco Cartões remuneration by the Company through the payment of a connectivity rate for the Company’s access to merchants affiliated to Amex brand acquiring systems. Partnership with Amex brand has high potential of generating value to the Company to the extent that it supplements its brand portfolio. The signing of such agreement was approved by the Board of Directors, with abstention from those legally impeded by conflict of interest. Prices charged for the provision of this service are similar to those practiced with other third party partners.

***Bank account lock***

Refers to bank account lock service agreements entered into with various banks, whose service consists of ensuring to the banks the bank account lock of the authorized merchants that carry out financial transactions with them. These related-party transactions are carried out at prices and under conditions similar to the transactions carried out with other domicile banks.

***Recordkeeping of Cielo’s shares***

A stock book-entry service agreement entered into between Cielo and Banco Bradesco S.A., whereby the latter provides stock book-entry and share certificate issuance services to the Company.

***Operating services - Stock option program***

Service agreement consisting of rendering operating services for the stock option program and the related grants entered into with Bradesco S.A. Corretora de Títulos e Valores Mobiliários.

***Payment management services***

Banco do Brasil entered into an agreement with Cateno in order to operate as Payment Institution in managing post-paid accounts and purchase functions by charging the Ourocard Payment Arrangement while Cateno's Granted Rights are not exercised by it. The agreement has a clause of remuneration equivalent to 0.01% of the total financial flow of transactions carried out under the contracting party’s management.

***Securities bookkeeping services***

Contract entered into with Banco Bradesco S.A. for the provision of debenture and mandate bank bookkeeping services.

***Securities management services***

Contract entered into with Banco Bradesco BBI S.A. for the provision of promissory notes and debentures coordination and distribution services, the latter pursuant to the terms of CVM Instruction No. 400.





***Public and private securities operating management services***

The object of the contract entered into with Banco do Brasil S.A. is to regulate the provision of movement, custody and financial settlement services for transactions carried out with public securities registered with SELIC and private securities registered with CETIP.

***Representation services with CIP***

Contract entered into with Banco do Brasil S.A. for representation of the bank with CIP (Interbank Payment Clearing House) for provision of settlement services for transactions carried out with credit and/or debt cards and provision of STR (Reserve Transfer System) issuance services.

***Other widespread agreements***

In addition to the recorded balances, the Company engages other services from the main shareholders, namely:

- Cash management services.
- Insurance.
- Health insurance and private pension services.
- Corporate credit card.
- Payment to suppliers.

## **29 Segment information**

Information by operating segments is presented consistently with the internal reports provided to the Chief Operating Decision-Maker - CODM.

As of the closing of the association with BB Elo Cartões, when Cateno was established on February 27, 2015, with operating activities related basically to managing payment accounts within the scope of the Ourocard Payment Arrangement, essentially different from the aforementioned segment, the Group now holds two types of business: (i) provision of services related to capture and processing of credit and debit card transactions, other means of payment, accreditation of merchants and related services, and (ii) management of transactions arising from credit and debit card transactions, among which issuing cards, managing payment accounts, support to management and control of security in transactions, payments of fees to brands and payment arrangements, and other services related to managing payment accounts.

Immediately thereafter, Management started separately monitoring the operating profit or loss of its business units in order to make decisions on allocation of resources and performance evaluation. Performance of segments is assessed based on several metrics, such as net revenue, profit before taxes, profit for the year, among others that in many cases are measured differently from operating profit or loss in the consolidated financial statements. Additionally, the information presented in the performance of each segment does not correspond individually to the profit or loss of a Group's entity.

A business segment is an identifiable component of the Group intended to provide an individual product or service or a group of related products or services and subject to risks and rewards differentiated from all other business segments.



**Cielo S.A.**  
Individual and consolidated financial statements for the  
year ended December 31, 2016 and independent auditor's report

Regarding information on geographical area, the Company carries out transactions in Brazil and the United States of America through its subsidiaries Me-S and Cielo USA.

	Year ended December 31, 2016			Year ended December 31, 2015		
	Capture and processing of transactions	Management of payment accounts	Consolidated	Capture and processing of transactions	Management of payment accounts	Consolidated
Domestic market	8,094,589	2,487,091	10,581,680	7,479,546	2,036,935	9,516,481
Foreign market	1,719,103	-	1,719,103	1,605,833	-	1,605,833
Net operating revenue	9,813,692	2,487,091	12,300,783	9,085,379	2,036,935	11,122,314
Cost of services provided	(3,850,819)	(1,252,618)	(5,103,437)	(3,421,746)	(1,047,107)	(4,468,853)
Depreciation and amortization	(505,589)	(385,733)	(891,322)	(520,386)	(321,445)	(841,831)
Gross profit	5,457,284	848,740	6,306,024	5,143,247	668,383	5,811,630
Operating expenses	(1,544,735)	(117,464)	(1,662,199)	(1,353,332)	(66,618)	(1,419,950)
Depreciation and amortization	(74,220)	(140)	(74,360)	(59,996)	-	(59,996)
Operating profit	3,838,329	731,136	4,569,465	3,729,919	601,765	4,331,684
Finance income (costs)	2,324,127	(872,817)	1,451,310	1,983,323	(880,176)	1,103,147
Profit (loss) before taxes	6,162,456	(141,681)	6,020,775	5,713,242	(278,411)	5,434,831
Income tax and social contribution	(1,887,818)	50,539	(1,837,279)	(1,871,078)	87,680	(1,783,398)
<b>Profit (loss)</b>	<b>4,274,638</b>	<b>(91,142)</b>	<b>4,183,496</b>	<b>3,842,164</b>	<b>(190,731)</b>	<b>3,651,433</b>
<b>Attributable to:</b>						
Owners of the Company	4,266,729	(261,279)	4,005,450	3,835,291	(323,855)	3,511,436
Noncontrolling interests	7,909	170,137	178,046	6,873	133,124	139,997

In order to start operating in the business segment “Management of Payment Accounts”, the rights to use the Ourocard Payment Arrangement in the amount of R\$11,572 million were granted to the subsidiary Cateno (see note 10).

The balances by segment as at December 31, 2016 are as follows:

<b>Statement of financial position as at December 31, 2016</b>			
	Capture and processing of transactions	Management of payment accounts	Consolidated
Total assets	18,093,578	12,450,492	30,544,070
Purchases of property and equipment and intangible assets	525,280	1,170	526,450
Investments in subsidiaries and associate	104,354	-	104,354
<b>Statement of financial position as at December 31, 2015</b>			
	Capture and processing of transactions	Management of payment accounts	Consolidated
Total assets	17,540,255	12,437,546	29,977,801
Purchases of property and equipment and intangible assets	553,463	11,601,343	12,154,806
Investments in subsidiaries and associate	105,108	-	105,108



### 30 Noncash transactions

	Parent Company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Exchange differences on net foreign investments	202,708	394,934	202,708	394,934
Exchange differences on borrowings	303,479	587,124	563,689	587,124
Minimum dividends and interest on capital proposed	587,560	540,938	624,730	540,938
Contribution by non-controlling shareholders	-	-	-	3,488,003

### 31 Insurance

As at December 31, 2016, the Company has the following insurance agreements:

Type	Insured amount
Civil liability of Directors and Officers	265,000
Named perils (fire, windstorm and smoke, electrical damages, electronic equipment, theft and flood)	264,035
Loss of profits	18,977
Vehicles	269
POS equipment warehousing	326,493
POS equipment transportation	2,097,091
POS equipment FINAME	918,699

### 32 Approval of financial statements

The individual and consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on January 30, 2017.